This is a preliminary prospectus relating to these securities, a copy of which has been filed with the securities commission or similar regulatory authority in each of the provinces of Canada but which has not yet become final for the purpose of a distribution or a distribution to the public. Information contained herein is subject to completion or amendment. These securities may not be sold to, nor may offers to buy be accepted from, residents of such jurisdictions prior to the time a receipt is obtained for the final prospectus from the appropriate securities commission or other regulatory authority of such jurisdictions.

Preliminary Prospectus Dated May 23, 1997

This Prospectus constitutes a public offering of these securities only in those jurisdictions where they may be lawfully offered for sale and therein only by persons permitted to sell such securities. No securities commission or similar authority in Canada has in any way passed upon the merits of the securities offered hereunder and any representation to the contrary is an offence. These securities have not been and will not be registered under the United States Securities Act of 1933, as amended (the ''1933 Act''), and accordingly, will only be offered or sold in the United States of America pursuant to applicable exemptions under the 1933 Act. See ''Plan of Distribution''.

Initial Public Offering

[logo]

CEAPRO INC.

$ ●
● Common Shares
and
$4,000,000
800,000 Units

(Upon the exercise of an equal number of Special Warrants)

(Each Unit consisting of one Common Share and one-half Common Share Purchase Warrant)

● Common Shares (the ''Offered Shares'') in the capital of Ceapro Inc. (the ''Company'' or ''Ceapro'') are hereby offered at a price of $ ● per Offered Share. The currently outstanding Common Shares of the Company are listed on The Alberta Stock Exchange (''ASE''). On May 22, 1997, the closing price of the Common Shares on the ASE was $2.90 per Common Share. See ''Price Range and Trading Volumes of Common Shares''. The offering price of the Offered Shares has been determined by negotiation between the Company and Yorkton Securities Inc. and Lévesque Beaubien Geoffrion Inc. (collectively, the ''Underwriters'').

This Prospectus is also being filed to qualify the distribution of 800,000 Units (the ''Units''), each Unit being comprised of one Common Share and one-half Common Share purchase warrant (a ''Warrant''), to be issued without additional payment upon the exercise or deemed exercise of 800,000 special warrants (the ''Special Warrants'') previously issued by the Company on January 31, 1997. Each whole Warrant entitles the holder to purchase one Common Share at a price of $5.00 for a period of 365 days following the day upon which a receipt for this Prospectus has been issued by the Alberta Securities Commission.

Price: $ ● per Offered Share

	Price	Underwriters' Fee[1]	Net Proceeds to the Company[2][4]
Per Offered Share	$ ●	$ ●	$ ●
Sub-Total[3]	$ ●	$ ●	$ ●
Per Special Warrant	$5.00	not applicable	$5.00
Sub-Total	*$4,000,000*	*not applicable*	*$4,000,000*
Total	**$ ●**	**$ ●**	**$ ●**

Notes:

(1) As additional consideration for the services rendered by the Underwriters, the Company has granted to the Underwriters a non-assignable option (the ''Compensation Option''), exercisable at any time prior to ● , 1999, to acquire up to ● Common Shares at an exercise price of $ ● per share. This Prospectus qualifies one-half of the Compensation Option. The remainder of the Compensation Option and the Common Shares issuable upon exercise thereof will be distributed to the Underwriters under an exemption from the prospectus requirement. See ''Plan of Distribution''.

(2) After deducting the Underwriters' fees but before deducting estimated expenses of issue of $600,000, which, together with the Underwriters' fees, will be paid by the Company and by certain shareholders (the ''Selling Shareholders''), if such shareholders sell Common Shares pursuant to the exercise of the Over-Allotment Option, as defined below, based on their proportionate share of gross proceeds. See ''Plan of Distribution''.

(3) The Company and the Selling Shareholders have granted the Underwriters an option (the ''Over-Allotment Option''), exercisable for a period of 60 days from the closing of this offering, to purchase up to an aggregate of ● Common Shares on the same terms as the Offered Shares solely to cover over-allotments, if any, and for market stabilization purposes. The Selling Shareholders have the right to provide up to half of the Common Shares for which the Underwriters exercise the Over-Allotment Option. If the Over-Allotment Option is exercised in full, the total price to the public will be $ ● , the Underwriters' fee will be $ ● and the total net proceeds to the Company and the Selling Shareholders will be $ ● . This Prospectus also qualifies the distribution of the Common Shares issuable upon exercise of the Over-Allotment Option. See ''Plan of Distribution''.

(4) No fee will be paid to the Underwriters and the Company will not receive any additional proceeds in connection with the Units to be issued upon the exercise of the Special Warrants.

The Special Warrants were issued pursuant to a subscription agreement dated January 31, 1997, between the Company and the Alberta Wheat Pool (the ''Subscriber''), at a price of $5.00 per Special Warrant. The price of the Special Warrants and the exercise price of the Warrants were determined by negotiation between the Company and the Subscriber. This agreement was entered into concurrently with a long term supply agreement between the Company and the Subscriber. See ''Business of the Company – Suppliers''. Each Special Warrant may be exercised at any time prior to 5:00 p.m. (Edmonton time) on the earlier of (i) the fifth business day following the date upon which a receipt for this Prospectus has been issued by the Alberta Securities Commission, and (ii) January 31, 1998 (the ''Special Warrant Expiry Time''). Any Special Warrants not exercised by the Subscriber prior to the Special Warrant Expiry Time will be deemed to have been exercised, without any further action on the part of the Subscriber, immediately prior to the Special Warrant Expiry Time.

The Underwriters, as principals, conditionally offer the Offered Shares, subject to prior sale, if, as and when issued by the Company and delivered to and accepted by the Underwriters, in accordance with the conditions contained in the underwriting agreement referred to under ''Plan of Distribution'' and subject to the approval of certain legal matters on behalf of the Company by Milner Fenerty and on behalf of the Underwriters by Blake, Cassels & Graydon.

The offering price of $ ● per Offered Share exceeds the net tangible asset value per Common Share as at December 31, 1996, after giving effect to the offering of the Offered Shares and the issue of 800,000 Common Shares on the exercise of the Special Warrants, by $ ● per Common Share, which represents dilution to investors of ● %. The issue price of $5.00 per Special Warrant exceeds the net tangible asset value per Common Share as at December 31, 1996, before giving effect to the offering of the Offered Shares but after giving effect to the issue of 800,000 Common Shares on the exercise of the Special Warrants, by $4.67 per Common Share, which represents dilution of 93.32%. See ''Dilution''.

An investment in the securities qualified by this Prospectus is subject to certain risks and should be considered speculative. Prospective investors should carefully consider the risk factors described herein under ''Risk Factors''.

Subscriptions for the Offered Shares will be subject to rejection or allotment in whole or in part and the right is reserved to close the subscription books at any time without notice. It is expected that certificates for the Offered Shares will be available for delivery at the closing, which is expected to occur on or about ● , 1997, but in any event not later than ● , 1997.

TABLE OF CONTENTS

Except as set forth in the Consolidated Financial Statements or otherwise indicated herein, all information in this Prospectus (i) assumes no exercise of the Over-Allotment Option or the Compensation Option; and (ii) reflects an amalgamation of two predecessors of the Company pursuant to a plan of arrangement effective January 1, 1997, as described under ''History of the Company''. Except as otherwise stated, references to Common Shares include the common shares of Ceapro, and the common shares of these predecessors for time periods prior to January 1, 1997 (converted on the basis of one Common Share for each two common shares of Ceapro Developments Inc. or one Common Share for each four and one-half common shares of Vexco Healthcare Inc.). Except as otherwise stated, all dollar amounts in this Prospectus are in Canadian dollars. Unless the context requires otherwise, references in this Prospectus to ''Ceapro'' or the ''Company'' include Ceapro Inc. and its operating subsidiary, Canamino Inc. (''Canamino'').

Certain technical terms used in this Prospectus are defined in the Glossary of Technical Terms beginning on page 8.

Ostar®, Ostar Arriveen®, the Canamino Inc. design and Lipsorex® are registered trade-marks of the Company, and the Company's logo, Solarriveen™, Dr. Redmond's Animal Coat Wash™, Equine Elite™ Ostar® Wash, Nature Enhancing Life™, Minerva™ and the Minerva design are trade-marks of the Company. All other trade-marks or trade names referred to in this Prospectus are the property of their respective owners.

PROSPECTUS SUMMARY

This is a summary only and is qualified in its entirety by the more detailed information and consolidated and pro-forma financial statements, including the notes thereto, appearing elsewhere in this Prospectus.

THE COMPANY

Ceapro discovers, develops and produces value-added natural health products derived from oats and other grains using a patented fractionation technology to which Ceapro has the exclusive rights. This patented fractionation technology, originally developed by Agriculture and Agri-Food Canada, enables the separation and purification of active extracts from oats and other grains for use in a variety of innovative formulations and finished products developed by Ceapro and other manufacturers. Ceapro's products are generally based on active oat extracts, the health benefits of which are the subject of independent efficacy testing, and are marketed under the Ostar® brand name. These products have application in the life sciences industry, including the consumer health products (primarily cosmetics and personal care, dermal care and animal care), pharmaceutical and functional food markets. Ceapro's expertise in agriculture and biotechnology is strengthened through collaborations with grain suppliers, government agencies, research institutions, and product manufacturers and distributors.

Ceapro operates a fractionation plant in Saskatoon, Saskatchewan which, in April 1996, commenced pre-commercial production of oat extracts for initial introduction and field testing in a variety of consumer health products. This facility was originally constructed to validate and optimize the fractionation process and to produce extracts for use in the cosmetics market. Ceapro is currently taking steps to enable this facility to produce limited quantities of food grade extracts for product development and efficacy testing purposes. This plant has enabled numerous process enhancements and the discovery of new oat extracts and is capable of processing up to 15,000 tonnes of oat groats per year, depending on the extracts produced. Over the past five months, the plant has processed an average of 171 tonnes of oat groats per month. Further testing on process modifications is being conducted to improve productivity, improve capacity utilization and enhance product quality.

Ceapro's strategic objective is to be a leading global developer, producer and supplier of branded extracts for use in premium products in life sciences industry sectors. Ceapro intends to achieve its strategic objective through: continuous improvement of the fractionation technology; innovative product development; branding products with the Ostar® name; licensing of products to leading manufacturers, distributors and retailers; and increasing production capacity.

There is a growing consumer demand for natural, more healthful products. The average age of North Americans is increasing, with the ''baby boom'' generation born between 1947 and 1966 now reaching middle age. Awareness of mortality and concern about health typically increases with age and this trend is driving increased demand for healthy products. Oat extracts have demonstrated unique and desirable properties for use in consumer health products, pharmaceuticals and foods.

Ceapro has three product divisions: (i) consumer health products, (ii) pharmaceuticals and (iii) functional foods. The consumer health products division is expected to generate the majority of Ceapro's sales during the next two years while products in Ceapro's other divisions are developed and brought to commercialization.

Ceapro's consumer health products division develops products using oat-based extracts for use primarily in the cosmetics and personal care, dermal care and animal care markets. These products contain active extracts that help restore skin integrity to slow the appearance of skin aging, prevent infection and soothe irritation. Ceapro's Ostar® extracts have been introduced in a number of products including soaps, shampoos, lotions, face powders, the powder in a line of medical examination gloves and the soothing extract in a leading brand of baby

wipes. Ostar® extracts have been used for new product introductions and field testing in eighteen different cosmetic product lines, including cosmetics made by Estee Lauder Inc. and skin creams and lotions made by Chesebrough Ponds USA Co.

Ceapro's pharmaceutical division is developing a number of oat-based pharmaceutical extracts and finished products. Oats, and in particular the soluble fibre of oats, have been well documented as having desirable pharmaceutical properties, including the ability to reduce blood cholesterol levels, moderate post-meal glucose levels in the blood and stimulate the immune system. Included in Ceapro's pharmaceutical products in development is an oat-based product (the Diabetes Screening Product or ''DSP'') to be used in connection with the early screening of Type II diabetes. There are approximately 15 million Type II diabetics in the United States and an estimated one half of these individuals are undiagnosed, in part because the current screening processes for diabetes are inadequate. Another 21 million Americans have impaired glucose tolerance, of which half will go on to develop Type II diabetes. Preliminary data from the recent pivotal trial of the DSP indicates that it provides significantly more accurate test results than the oral glucose tolerance test in persons with impaired glucose tolerance. The Company believes these characteristics of the DSP will make it useful for testing impaired glucose tolerance and screening for Type II diabetes. Ceapro is preparing to submit the DSP to the Canadian Health Protection Branch (''HPB'') and to make a 510(k) submission to the United States Food and Drug Administration (the ''FDA'') for regulatory approval. Ceapro is also developing a number of oat-based healthcare products and treatments which enhance animal health and performance. In addition, Ceapro has a non-oat based lip care product, Lipsorex®, which is currently being sold in major pharmacies in Canada.

Functional foods are foods which confer a specific medical or health benefit. The FDA recently approved for the first time the use of a health claim relating to food, specifically oat bran. An example of such a claim is: ''Soluble fibre from foods such as oat bran, as part of a diet low in saturated fat and cholesterol, may reduce the risk of heart disease.'' Ceapro's functional foods division is developing a family of products originally based on the high beta glucan Ostar® bran. Ceapro's Ostar® bran contains 16-20% beta glucan compared to typical dry-milled commercial concentrations of 6-9%.

THE OFFERING

Offered Shares:	● Common Shares.
Price of Offered Shares:	$ ● per Common Share.
Amount:	$ ●
Special Warrants:	800,000 Units of the Company issuable upon exercise of 800,000 Special Warrants.
Price of Special Warrants:	$5.00 per Special Warrant.
Description of Special Warrants:	On January 31, 1997, the Company issued 800,000 Special Warrants to the Alberta Wheat Pool for aggregate proceeds of $4,000,000. Each Special Warrant entitles the holder to receive one Unit without paying any additional consideration. Each Special Warrant may be exercised at any time prior to the Special Warrant Expiry Time. Any Special Warrants not exercised by the holder thereof prior to the Special Warrant Expiry Time will be deemed to have been exercised, without any further action on the part of the holder, immediately prior to the Special Warrant Expiry Time. Each Unit is comprised of one Common Share and one-half Warrant. Each whole Warrant entitles the holder to purchase one Common Share at a price of $5.00 for a period of 365 days following the day upon which a receipt for this Prospectus has been issued by the Alberta Securities Commission. See ''Plan of Distribution – Special Warrants''.

Common Shares Outstanding as at April 30, 1997:	After the exercise of the Special Warrants: . . . . . 16,333,217 After the exercise of the Special Warrants and the offering of the Offered Shares: . . . . . ●
Use of Proceeds:	The net proceeds from the offering of the Offered Shares and the Special Warrants is estimated to be $ ●, after deducting the cash component of the Underwriters' fees of $ ● and the expenses of this Prospectus, estimated at $600,000. The Company intends to use the net proceeds as follows: (i) as to approximately $6 million, to fund process, product and market development costs, including $4.5 million to fund research on oat fractionation process modifications, new extracts and new finished products, $1.0 million for completion of testing and commercialization of the DSP and $0.5 million for the development of markets and the formation of strategic alliances for new and existing extracts and finished products; and (ii) the balance of the net proceeds will be used for working capital purposes. See ''Use of Proceeds''.
Risk Factors:	There are certain risk factors inherent in an investment in the Common Shares that investors should consider as follows: lack of earnings and history of operating losses, future capital requirements, dependence on oat fractionation technology, limited production facilities, no guarantee of development success or market acceptance, government regulation, no guarantee of marketing success, competition, successful management of growth and consolidation, patents and technologies, key personnel and collaborators, product liability and insurance, volatile share price, exchange rate risks, agreement with SGGF and dilution. See ''Risk Factors'' and ''Dilution''.

Selected Consolidated Financial Information

The following selected consolidated financial information is derived from and should be read in conjunction with the unaudited consolidated financial statements of Ceapro Inc. and Ceapro Developments Inc. for the three months ended March 31, 1997 and 1996, the pro forma unaudited consolidated financial statements of Ceapro for the six months ended December 31, 1996, the audited consolidated financial statements of Ceapro Developments Inc. for the six months ended December 31, 1996 and 1995 (unaudited) and for the years ended June 30, 1996 and 1995 and the audited financial statements of Vexco Healthcare Inc. for the six months ended December 31, 1996, contained herein.

	Ceapro Inc.	Ceapro Developments Inc.	Ceapro Inc.	Ceapro Developments Inc.			
	Three Months ended March 31, 1997	Three Months ended March 31, 1996	Pro forma Six Months ended December 31, 1996	Six Months ended December 31, 1996	Six Months ended December 31, 1995	Year ended June 30, 1996	Year ended June 30, 1995
	(unaudited)	(unaudited)	(unaudited)	(audited)	(unaudited)	(audited)	(audited)
Income Statement Data:							
Sales	$ 468,082	$ —	$1,396,857	$ 559,543	$ —	$ —	$ —
Gross margin	62,178	—	353,064	42,877	—	—	—
General & Administrative	863,557	196,143	2,501,357	1,622,622	201,934	1,526,527	164,800
Net loss	2,019,225	1,085,443	4,171,089	3,694,994	1,939,809	5,487,425	1,480,996
Net loss per share	(0.13)	(0.09)	(0.29)	(0.20)	(0.21)	(0.52)	(0.22)

Note: In connection with the amalgamation on January 1, 1997 pursuant to which the Company was formed, the Company changed its fiscal year end from June 30 to December 31. As a result, the fiscal period ended December 31, 1996 consists of six months.

GLOSSARY OF TECHNICAL TERMS

Set out below are certain defined terms as used in this Prospectus.

''**Adjuvant**'' means a substance which enhances or modifies the action or effect of a substance with which it has been combined;

''**Anti-oxidant**'' means a compound that reduces or prevents oxidation by binding free radicals and superoxides;

''**Arriveen**'' means an ethanolic extract of oats containing compounds having potential pharmaceutical and cosmetics use;

''**Avenanthramide**'' means a phenolic anti-oxidant found only in oats and which is extracted from Ostar Arriveen®;

''**Beta Glucan**'' means a polymer of glucose comprising the cell walls of plants. Beta glucan may be effective in lowering cholesterol and stimulating the immune system. It also has cosmetics applications to increase skin moisture, while adding viscosity to creams and lotions;

''**Cytokine**'' means a protein which stimulates or inhibits the proliferation or function of cells involved in immune response;

''**Denaturant**'' means an agent intended to change the nature or natural qualities of a substance, such as methanol (methyl alcohol), a substance added to ethanol (ethyl alcohol) to make it unfit for drinking;

''**Dermatitis**'' means a diseased or abnormal condition of the skin;

''**DSP**'' means the Diabetes Screening Product, a bar containing precise and calibrated levels of carbohydrate, fat and protein, representing a standardized meal, and intended to be used for screening and early detection of diabetes;

''**Exanthematous**'' means arising from a skin eruption or rash, such as the spots in measles or the eruption on the skin and mucous membrane in foot and mouth disease;

''**Fasting Blood Glucose Test**'' means a screening procedure for diabetes which involves fasting overnight followed by measurement of blood glucose levels;

''**FDA**'' means the United States Food and Drug Administration;

''**Functional Food**'' means a food or food ingredient that provides physiological benefits, beyond basic nutritional needs;

''**Glycemic Load**'' means consumption of food whose carbohydrate content can be easily converted into blood glucose;

''**Groats**'' means de-hulled oats;

''**HPB**'' means the Health Protection Branch of Health Canada;

''**Hyaluronic Acid**'' means an acidic mucopolysaccharide found in tissue which acts as a binding and protective agent. Hyaluronic acid is used in the cosmetics industry as a lubricating and emolliating compound;

''**Hyperglycaemia**'' means elevated blood glucose beyond the normal range;

''**Hydrocolloid**'' means a solution in which particles, typically proteins or starches, are uniformly dispersed in water;

''**Hydrolyzed**'' means a chemical decomposition in which a substance is split into simple compounds by the addition of, or taking up of, water;

‘‘**Mastitis**’’ means the inflammation of the mammary gland or udder of a female mammal. In the short term, mastitis reduces milk quality; in the long term, if untreated, it destroys the milk producing tissue and reduces milk yields;

‘‘**Oral Glucose Tolerance Test**’’ means a diagnostic test for diabetes involving fasting overnight followed by the ingestion of a liquid glucose drink and the measurement of blood glucose levels, which may be undertaken if a screening procedure or physical symptoms indicate diabetic potential;

‘‘**Polysaccharides**’’ means one of a group of carbohydrates that upon hydrolysis yields several molecules of simple sugars;

‘‘**Pruritus**’’ means severe itching that may be a symptom of a disease, such as an allergy, or due to emotional factors;

‘‘**Quinoa**’’ means an ancient cereal grain initially grown in the Andes region of South America;

‘‘**Saponin**’’ means any one of a group of glucosides obtained from plants, some forms of which are reported to stimulate animals’ immune systems;

‘‘**Tricin**’’ means a glycosylflavone extracted from Ostar Arriveen® having potential pharmaceutical use.

THE COMPANY

Ceapro Inc. is the corporation resulting from the amalgamation of Ceapro Developments Inc. (''Developments'') and Vexco Healthcare Inc. (''Vexco'') pursuant to a plan of arrangement under the *Business Corporations Act* (Alberta) (the ''ABCA'') effective January 1, 1997. The Company has one active wholly-owned subsidiary, Canamino, which was incorporated under the *Canada Business Corporations Act* on July 17, 1991. See ''History of the Company''.

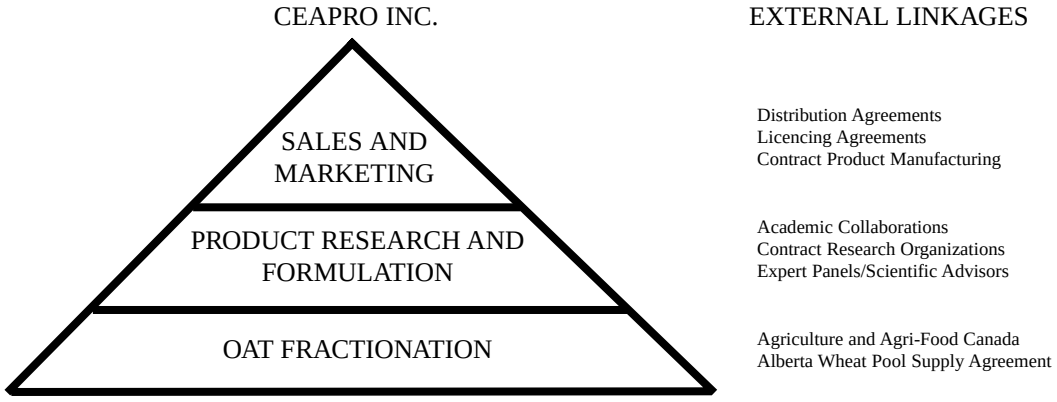
Ceapro's head office is located at Suite 2830 ManuLife Place, 10180 – 101 Street, Edmonton, Alberta, T5J 3S4, its telephone number, facsimile number and e-mail address are (403) 421-4555, (403) 421-1320 and ''info@ceapro.com'', respectively, and its registered office is located at 2900 ManuLife Place, 10180-101 Street, Edmonton, Alberta, T5J 3V5.

BUSINESS OF THE COMPANY

Overview

Ceapro discovers, develops and produces value-added natural health products derived from oats and other grains using a patented fractionation technology to which Ceapro has the exclusive rights. This patented fractionation technology, originally developed by Agriculture and Agri-Food Canada, enables the separation and purification of active extracts from oats and other grains for use in a variety of innovative formulations and finished products developed by Ceapro and other manufacturers. See ''Intellectual Property''. Ceapro's products are generally based on active oat extracts, the health benefits of which are the subject of independent efficacy testing, and are marketed under the Ostar® brand name. These products have application in the life sciences industry, including the consumer health products (primarily cosmetics and personal care, dermal care and animal care), pharmaceutical and functional food markets. Ceapro's expertise in agriculture and biotechnology is strengthened through collaborations with grain suppliers, government agencies, research institutions, and product manufacturers and distributors.

The following diagram illustrates Ceapro's primary operational activities and the external linkages formed by Ceapro to support its operations and bring its products to consumer markets.



There is a growing consumer demand for natural, more healthful products. The food industry, for example, is now catering to a better informed, aging and health-conscious consumer. The FDA recently approved for the first time the use of a health claim relating to food, specifically oat bran. An example of such a claim is: ''Soluble fibre from foods such as oat bran, as part of a diet low in saturated fat and cholesterol, may reduce the risk of heart disease.'' Oat extracts have demonstrated unique and desirable properties for use in consumer health products, pharmaceuticals and foods.

Ceapro operates a fractionation plant in Saskatoon, Saskatchewan which, in April 1996, commenced pre-commercial production of oat extracts for initial introduction and field testing in a variety of consumer health products. This facility was originally constructed to validate and optimize the fractionation process and to produce extracts for use in the cosmetics market. Ceapro is currently taking steps to enable this facility to produce limited quantities of food grade extracts for product development and efficacy testing purposes. This plant has enabled numerous process enhancements and the discovery of new oat extracts and is capable of processing up to 15,000 tonnes of oat groats per year, depending on the extracts produced. Over the past five months, the plant has processed an average of 171 tonnes of oat groats per month. Further testing on process modifications is being conducted to improve productivity, improve capacity utilization and enhance product quality. See ''Business of the Company – Production''.

Strategy

Ceapro's strategic objective is to be a leading global developer, producer and supplier of branded extracts for use in premium products in life sciences industry sectors. This business strategy will be focused on the use of the patented fractionation technology to extract and purify different types of grain extracts and the development of products which incorporate such extracts. Ceapro intends to achieve its strategic objective through:

- continuous improvement to the fractionation technology;
- innovative product development;
- branding products with the Ostar® name;
- licensing of products to leading manufacturers, distributors and retailers; and
- increasing production capacity.

Continuous Improvement to the Fractionation Technology

Ceapro intends to invest approximately 20% of its annual research budget on fractionation process modifications to lower production costs, improve capacity utilization, enhance product quality and isolate and purify new active oat extracts. These activities are being undertaken in part in collaboration with Agriculture and Agri-Food Canada. In addition, Ceapro intends to broaden the core oat fractionation technology to enable the separation and purification of extracts from other grains and plants. For example, Ceapro has exclusive rights to a recently issued patent for the extraction and use of immune stimulants found in quinoa. In order to protect the competitive advantage afforded by its core technology, Ceapro does not intend to sub-license the fractionation technology to third parties.

Innovative Product Development

It is Ceapro's strategy to continue to develop innovative formulations and finished products incorporating the various extracts produced through the oat fractionation process for use in the life sciences industry, including the consumer health products, pharmaceutical and functional food markets. Ceapro's new product development is conducted internally and through collaboration with customers who have identified a particular need for the health benefits conveyed by Ceapro's natural oat extracts. Ceapro also adds to its internal research and development resources through collaboration with academic institutions, contract research organizations and expert panels/scientific advisors.

Branding Products with the Ostar® Name

Ceapro intends to associate the brand name Ostar® with all of its oat extracts and related products. Through strategic use of the Ostar® brand name and appropriate marketing programs, Ceapro will seek to create a brand name that crosses industry segments and capitalizes on public support and appreciation for the benefits of oat extracts. Ceapro intends to develop efficacy data for each use of the oat extracts. Both the promotion of a strong brand name and the development of efficacy data are intended to create value for distributors, licensees and retailers who either use the Company's products as ingredients or market finished products developed by or in association with the Company.

Product Licensing

Ceapro intends to develop strategic licensing and distribution agreements with companies having established distribution and retail networks or integrated manufacturing, distribution and retailing capabilities to bring its products

to market. This will allow Ceapro to focus on development of the fractionation technology and discovery, development and production of value-added natural health formulations and finished products.

Increasing Production Capacity

As market opportunities develop for Ceapro's oat extracts, production capacity must be increased to respond efficiently to increased production demand. Ceapro is testing process modifications to improve productivity, improve capacity utilization and enhance product quality. Successfully tested process modifications may be implemented at Ceapro's existing fractionation facility. In addition, if sufficient demand for its products at sufficient margins develops, Ceapro intends to construct a new facility which will further increase capacity, permit economies of scale and improve production efficiencies by enabling it to run fractionation processes in respect of Ostar® starch/protein, Ostar® Arriveen® and Ostar® beta glucan simultaneously, which is not currently possible at the existing facility. Preliminary engineering studies have been completed on a proposed new integrated fractionation plant capable of processing approximately 50,000 tonnes of oat groats annually. See ''Business of the Company – Production''.

Industry Overview

The life sciences industry includes a broad range of market sectors including healthcare, agribusiness and nutrition. As depicted in the following table, each of these broad sectors can be broken down into more finite market sectors, each focusing on a separate human or animal health-related requirement.

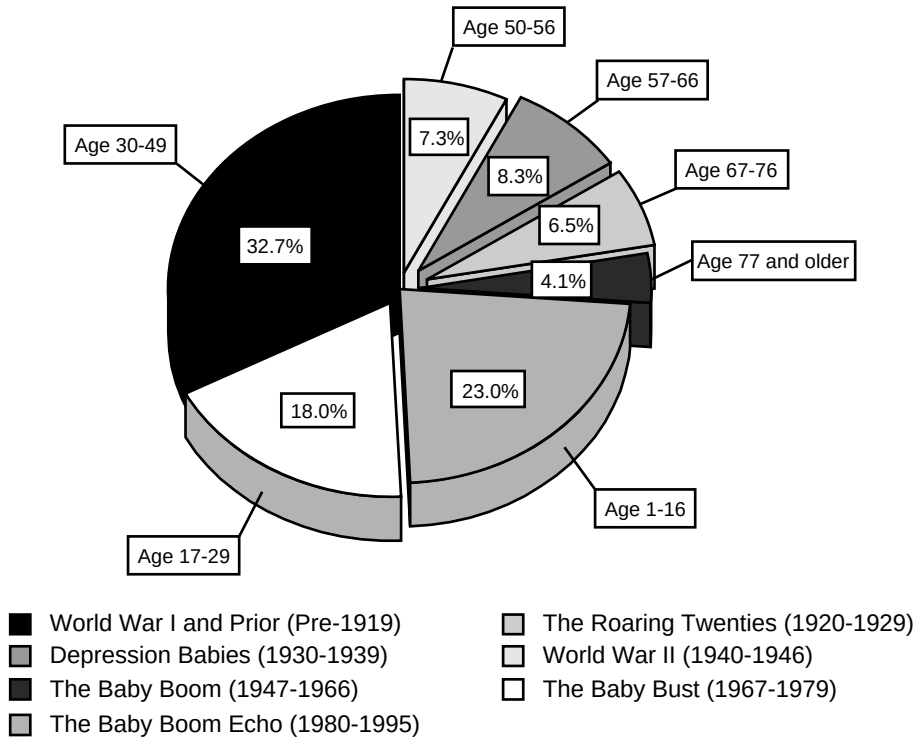
Business Sectors Included in the Life Sciences Industry

Healthcare	Agribusiness	Nutrition
Pharmaceuticals	Animal Health	Medical Nutrition
Consumer Health Products (including cosmetics)	Plant Biotechnology	Functional Foods

Pharmaceutical companies and biotechnology companies are exploring products from natural sources for potential application in these markets, and are aligning with specialty companies with focused research and development expertise. Ceapro's oat-based extracts, products and products in development have application in several of these markets, including consumer health products (primarily cosmetics and personal care, dermal care and animal care), pharmaceuticals (human and veterinary) and functional foods.

The demographic trend towards an older, more health-conscious population is expected to increase demand in a number of life sciences industry sectors. The average age of North Americans is increasing, with the ''baby boom'' generation born between 1947 and 1966 now reaching middle age. The oldest baby boomers are turning 50 years old in 1997. Numbering approximately 76 million people in the United States and 10 million people in Canada, representing approximately one-third of the population in North America, baby boomers are focused on prolonging their lives and enhancing their quality of life through a healthier lifestyle. Baby boomers, who represent the largest annual food expenditure, are becoming more health-conscious and affluent and are seeking foods which have the nutritional requirements to suit their changing physiology. Similarly, human skin requirements change with age, creating demand for effective skin care products and sun protection agents. In addition, this demographic group is expected to cause an increase in drug prescription needs. The number of prescriptions in the United States is expected to increase from an estimated 2.4 billion in 1997 to 3.7 billion when the baby boomers begin turning 65 in 2012.

Age of Canadian Population in 1996
(total population approximately 30 million)
Source: David K. Foot, ''Boom, Bust & Echo''



Resulting from these demographic trends is a growing consumer preference for natural products reflecting a more health-conscious population. It is estimated that more than 53 million consumers in the United States are health-conscious, meaning that they act to ensure good health when older and are concerned about nutrition and eating habits. As at April 1997, the global market for nutraceuticals, including all functional foods that impart specific health benefits, is estimated to be $71 billion. The belief that natural ingredients offer safety and mildness and, in certain circumstances, features that are unavailable from other animal-based or chemical ingredients, is causing an increase in demand for natural ingredients in cosmetic and personal care products. Sales in the United States by cosmetics retailers that offer natural products represented approximately U.S.$500 million in 1994 in the approximately U.S.$20 billion cosmetics, fragrance and toiletries market.

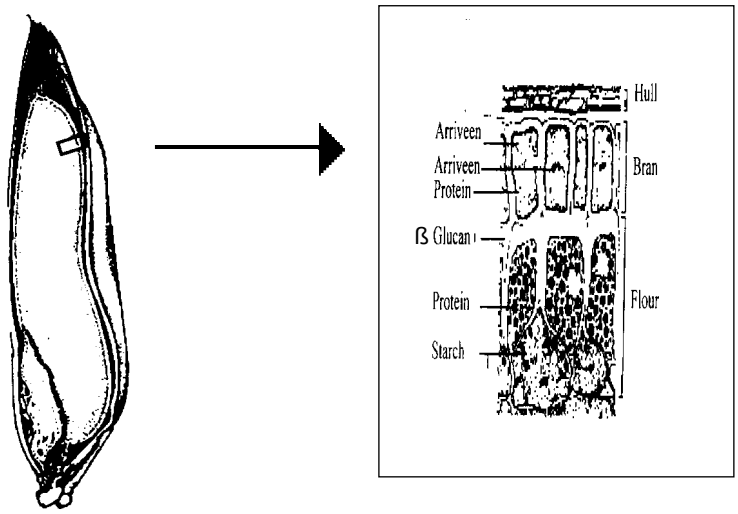
Science and technology play an important role in the acceptance of and demand for natural products in life sciences markets. Technological advances enable the detection, isolation and manipulation of active ingredients and research studies provide the efficacy data to support the health benefits of natural products. The most prominent example to date of a plant-derived drug is Taxol™, the anti-cancer drug produced by Bristol-Myers Squibb Company to treat refractory metastatic breast and ovarian cancer. Taxol™, which is based on a substance extracted from the needles and bark of the Pacific yew tree, generated worldwide sales of approximately U.S.$800 million in 1996. In the functional foods sector, a review of 37 scientific studies conducted over 30 years has resulted in the FDA recently approving for the first time a health claim to be made in respect of a food, specifically the heart health benefits of oats.

Oats and Oat Fractionation

Oats are one of the most highly nutritious cereal grains and are a good source of dietary fibre. Fibre can be categorized as either insoluble or soluble fibre. Insoluble fibre is found in whole grains and the outer coating (bran) of wheat, rye, rice and corn and has been found to be important in maintaining intestinal health. Soluble fibre is found in oat bran, legumes and fruits, and has been found to moderate glucose and insulin levels after eating and to reduce elevated plasma cholesterol levels.

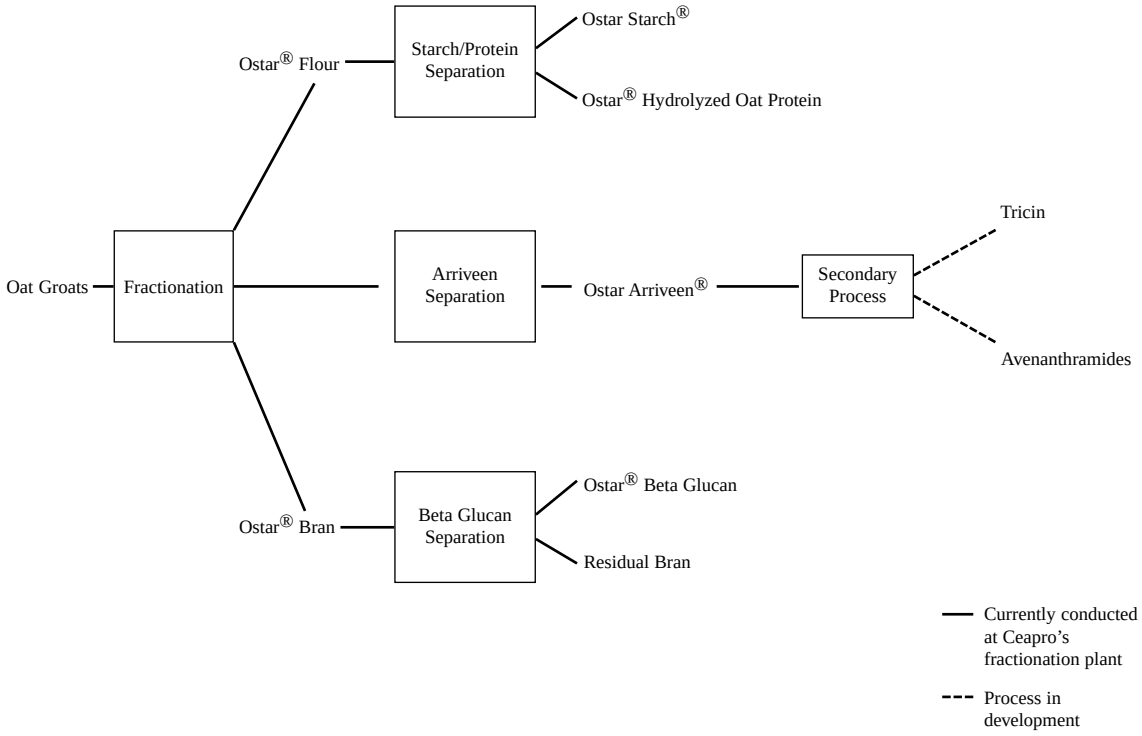
Oat bran is particularly high in beta glucan, an important source of soluble fibre. The FDA has concluded that beta glucan is the primary component of oats responsible for the reduction of cholesterol levels resulting from a well-balanced diet low in saturated fat and cholesterol and containing an appropriate amount of oats. In addition, beta glucan has immune stimulant and wound healing properties.

Major Oat Extracts



The diagram above shows the major extracts that can be isolated through the fractionation of oats. Oat fractionation has historically been limited to the separation of oat bran and oat flour using a dry-milling process. Oat fractionation through the wet-milling of oats was initially developed by Agriculture and Agri-Food Canada in the mid-1980s to enhance the potential value of oats. This patented process uses ethanol to separate oat groats into substantially pure flour and bran. This high fibre bran contains 16-20% beta glucan, as compared to typical dry-milled commercial concentrations of 6-9%. The purity of the bran and flour facilitates the extraction of other components of oats such as oat beta glucan, starch and protein. Ceapro has sub-licensed the exclusive rights to the wet-milling oat fractionation technology from Nuvotech Ventures International Inc. (‘‘NVI’’), which holds the original license of the technology from Agriculture and Agri-Food Canada. See ‘‘Business of the Company – Intellectual Property’’. Ceapro has made a number of process enhancements to the patented fractionation technology and is developing a further purification system. This secondary processing system can be used to isolate a group of secondary biopharmaceutical extracts, for example tricin and avenanthramides, which are found in small concentrations in oats and may have significant pharmaceutical properties. See ‘‘Business of the Company – Product Divisions – Pharmaceutical Products’’.

The following diagram outlines the overall process flow and major products associated with the oat fractionation technology:



Ceapro uses the oat fractionation process to produce natural extracts with applications in the life sciences industry, including the consumer health products, pharmaceutical and functional food markets. Due to regulatory requirements, Ceapro's fractionation plant operates using methanol, a denaturant, in the wet-milling process. As a result, the fractionation plant is not currently capable of producing certain extracts for use in food products. Ceapro is currently completing regulatory requirements for the use of an alternative denaturant which will enable it to produce limited quantities of food grade extracts for product development and efficacy testing purposes. As market opportunities develop, Ceapro intends to take steps to allow it to produce commercial volumes of its extracts for use in food products. Ceapro's extracts include:

Ostar® Bran: This extract is used in consumer health products as an absorbent to thicken the aqueous portions of lotions, creams and gels. Oat bran is the active ingredient in the functional food products being developed by Ceapro. Ostar® oat bran contains 16-20% beta glucan compared to typical dry-milled commercial concentrations of 6-9%. Oat bran has been clinically proven to have utility in reducing cholesterol and the risk of heart disease and, in scientific studies to have utility, in controlling glycaemia in connection with diabetic diets.

Ostar® Starch: With a small spherical particle and exceptional purity, Ostar® starch has utility in a number of applications in the dermal care field as a natural substitute for mineral talcum powder and corn starch. Ostar® starch has been introduced in medical examination gloves, bath powders, blush and eye shadow formulations.

Ostar Arriveen®: This oat extract has the anti-irritant properties that have given oats their historical reputation as a medicinal product. Ostar Arriveen® has been introduced in a variety of consumer health products, such as shampoos and skin creams. In addition, Ostar Arriveen® is the base material for the extraction of the sunblock, Solarriveen™ and for other pharmaceutical extracts.

Ostar® Beta Glucan: Beta glucan is the primary component responsible for the reduction of cholesterol and risk of heart disease through the regular consumption of oats. Beta glucan has been shown to have immune stimulant and wound healing properties, and is used in a variety of dermal care applications. Ostar® beta glucan is also being used to replace hyaluronic acid in lotions, creams and gels. The unique temperature and viscosity characteristics of oat beta glucan, specifically the reduction of viscosity with increased temperature followed by remarkable thickening upon cooling, give Ostar beta glucan potential application as a hydrocolloid thickener in ice cream, sauces and salad dressing.

Ostar® Hydrolyzed Oat Protein: Ostar® hydrolyzed oat protein has been introduced in shampoos, conditioners, lotions and creams. There is a trend in the cosmetic market to replace hydrolyzed animal protein with natural, botanically-sourced extracts. Oat proteins have excellent foaming properties and are high in emulsifying, fat-binding capacities.

Ostar® Flour: Ostar® flour is being field tested in a variety of cosmetic and animal care products and may have food applications, including as an anti-oxidant in dairy and other foods.

Through the use of the oat fractionation technology, Ceapro isolates and purifies a variety of extracts with specific features and benefits, thereby permitting a significantly higher value to be realized from a given volume of unprocessed oats. The following table compares the value of the extracts yielded from one tonne of oat groats processed through conventional dry-milling and the extracts yielded from one tonne of oat groats processed through Ceapro's fractionation processes. Concurrent fractionation of Ostar® starch/protein, Ostar Arriveen® and Ostar® beta glucan from different separation processes is not currently possible in a single production run at Ceapro's existing fractionation plant. As higher value extracts are isolated, fewer tonnes of oat groats can be processed in a given time. As well, the demand for certain fractions is currently limited by the inability of the existing plant to produce certain extracts for use in food products. Given these limitations of the current production facility, Ceapro is able to realize only a portion of the values indicated at capacity. Ceapro is testing further process modifications which, if successful, will improve productivity, enhance capacity utilization and improve quality.

Value of Product Output

(based on input of one tonne of oat groats)

	Unprocessed	**Conventional Dry-Milling**	**Ceapro Alternative Product Mixes**		
	Oat Groats	Conventional Bran	Ostar® Bran	Ostar® Bran	Ostar® Beta Glucan Residual Bran
			Ostar Arriveen®	Ostar Arriveen®	Ostar Arriveen®
		Flour	Ostar® Flour	Ostar® Starch Ostar® Hydrolyzed Oat Protein	Ostar® Starch Ostar® Hydrolyzed Oat Protein
Value[1] . .	$400	$1,900	$4,000[2]	$6,500[3]	$26,000[4]

Notes:

(1) Values in this table are based on Ceapro's pricing in consumer health care markets as at April 30, 1997 and assume the sale of all specified products extracted from one tonne of oat groats. Pricing is variable and may decline from those levels in effect as at April 30, 1997. The Company's ability to realize values in effect from time to time will depend on successful and cost-efficient manufacturing of the products and the Company's ability to successfully market its products in existing and new markets and on the ultimate mix of products sold. See ''Risk Factors''.

(2) The extracts produced by the Ceapro fractionation process are purer than those produced by conventional dry-milling, resulting in a higher value for these extracts.

(3) Value is added when further fractionation of Ostar® flour produces Ostar® starch and Ostar® hydrolyzed oat protein.

(4) Further value is added upon fractionation of the Ostar® bran into Ostar® beta glucan and residual bran.

Product Divisions

Ceapro has three product divisions, (i) consumer health products, (ii) pharmaceuticals and (iii) functional foods. The consumer health products division is expected to generate the majority of Ceapro's sales during the next two years while products in Ceapro's other divisions are developed and brought to commercialization.

Consumer Health Products

Ceapro's consumer health products division develops products using oat-based extracts for use primarily in the cosmetics and personal care, dermal care and animal care markets. These products contain active extracts that help restore skin integrity to slow the appearance of skin aging, prevent infection and soothe irritation. Ceapro's Ostar® extracts have been introduced in a number of products including soaps, shampoos, lotions, face powders, the powder in a line of medical examination gloves and the soothing extract in a leading brand of baby wipes. Sales in this sector are led by Ostar® starch, Ostar Arriveen® and Ostar® beta glucan.

Ceapro develops new consumer health product applications for its extracts internally and in conjunction with customers who identify a particular product or market need. For example, this cooperative process led to the development of the Ultravena® latex glove product line described below. In addition to product development, the consumer health products division develops strategic licensing and distribution relationships with third parties for both the use of oat-based extracts and the marketing and sale of finished products.

In order to create strong demand for Ceapro's consumer health products, Ceapro's strategy is to develop marketing programs based on the health benefits associated with its oat-based products, supported by efficacy data prepared by independent laboratories.

Cosmetics and Personal Care Products

Ceapro has commenced supplying oat extracts to the U.S. cosmetics and personal care markets for new product introductions and field testing, including Ostar® beta glucan, Ostar Arriveen®, Ostar® starch, Ostar® hydrolyzed oat protein and Ostar® bran. Ostar® extracts have been introduced in eighteen different cosmetic product lines, including cosmetics made by Estee Lauder Inc. and skin creams and lotions made by Chesebrough Ponds USA Co.

Sales of oat extracts are currently based on individual purchase orders and, where appropriate, Ceapro intends to enter into strategic licensing agreements for specific product applications and markets. Ceapro entered into a strategic agreement in 1995 with Estee Lauder Inc. pursuant to which Estee Lauder Inc. patented the use of Ostar Arriveen® as a sun block, Ostar Solarriveen™. Ceapro has a license to manufacture, sell and use ingredients claimed in Estee Lauder Inc.'s patent and to use the phrase ''sun screens containing plant extracts'' in exchange for a nominal royalty payable to Estee Lauder Inc. In addition, Ceapro has agreed to supply Estee Lauder Inc. with Ostar® Solarriveen™ for use in cosmetics on a purchase order basis.

Ceapro is positioning itself to grow with the industry trend toward the use of natural extracts to replace chemical and animal-based materials. The Company has a sales and support office in New York and regional sales personnel or contract agents in major markets in the United States. Ceapro is assessing and intends to initiate sales activity in the cosmetics sector in Europe and Japan.

Dermal Care

Ceapro sells a variety of oat extracts for use in dermal care applications such as skin recovery, skin protection and patient comfort. The FDA has recognized colloidal oatmeal (meeting specified minimum requirements for beta glucan, fat and protein content) as a safe and effective skin protectant. The use of oats in dermal care applications is also recommended by the American Medical Association. Colloidal oatmeal baths are recommended for the treatment of itchy, irritated skin due to a variety of skin conditions, including rashes, eczema, psoriasis, diaper rash, chicken pox and sunburn. The American Medical Association Drug Evaluations Committee further supports the use of oatmeal baths for pruritus accompanying acute dermatitis and extensive exanthematous lesions.

Ceapro formulates dermal care products, most often in collaboration with customers. Ceapro's oat extracts are used in antimicrobial washes, moisture retaining and bacteria protective lotions, powders for use with latex gloves and critical care lotions which reduce redness and irritation and retain moisture.

Ceapro entered into a licensing agreement with Ultravena Industries U.S.A. Ltd. (''Ultravena'') as of February 29, 1996 pursuant to which Ultravena was granted exclusive worldwide rights to market and license products using formulations which incorporate Ostar® oat starch, Ostar Arriveen® and Ostar® beta glucan for specific use in latex gloves, soaps and hand creams, as well as the right to use the Ostar® registered trade-mark. Pursuant to the licensing

agreement, a 3% royalty is payable to Ceapro based on Ultravena's gross profit on sales of products incorporating Ostar® extracts. Ceapro supplies oat-based formulations to Ultravena for use in these products on a purchase order basis.

Ceapro entered into a licensing agreement with Brennen Medical, Inc. (''Brennen'') as of May 16, 1994 granting Brennen the exclusive right to use formulations incorporating Ostar® beta glucan in the development of burn treatment products for hospital and clinic use. Under the agreement, Brennen has agreed to buy oat beta glucan exclusively from Ceapro for the next five years. Brennen has recently introduced a burn dressing in the U.S. market which incorporates Ostar® formulations pursuant to section 510(k) of the United States Food, Drug and Cosmetic Act.

Ceapro is currently developing a lotion that was initially intended to become a replacement for calamine lotion. This product has been found to have broader application given its natural anti-irritant and moisturizing properties which are based on the therapeutic activity of Ostar Arriveen® and Ostar® beta glucan. This lotion is also being investigated for its effectiveness against a variety of other skin disorders. Independent efficacy testing by a contract research organization is expected to begin in the second quarter of 1997 to study the lotion's redness reduction and anti-irritant properties.

Ceapro is also in final discussions with two additional companies in respect of licensing agreements for other chronic care dermal products.

Animal Care

Ceapro's consumer products division is currently in the initial stage of marketing a line of premium animal care products in Japan and is expecting to launch this product line in the third quarter of 1997. Ceapro is also currently evaluating partnering arrangements with a view to launching this product line in North America later this year. These products are formulated using Ostar® extracts and are designed to combat skin disease and the discomfort of itching and irritation in dogs, horses and other animals, and may prevent damage to the skin and prevent bacterial infection.

Dr. Redmond's Coat Wash™ is a soap-free canine shampoo which permits retention of natural skin oils and moisture while relieving dry, itchy and scaling skin. It is formulated using Ostar® hydrolyzed oat protein, Ostar® beta glucan and Ostar Arriveen®. The product has been extensively tested by Ceapro at the University of Saskatchewan. A related therapeutic product formulated to relieve itching and pruritus is expected to enter clinical trials in mid-1997. Equine Elite™ Ostar® Wash is a quality cleansing and anti-irritant shampoo for horses. This product is presently undergoing final market testing. Regulatory notifications for the marketing of these products have been filed with the Health Protection Branch of Health Canada (''HPB'').

Ceapro has entered into a distribution agreement with Daisen Sangyo Company Ltd. (''Daisen'') as of June 1, 1996 pursuant to which Daisen was appointed exclusive wholesale distributor in Japan for the distribution of Dr. Redmond's Coat Wash™ and Equine Elite™ Ostar® Wash. These products are expected to be launched in the third quarter of 1997. Daisen has committed to purchase a minimum of U.S. $2,000,000 of animal care products during the year following the first shipment of product under this agreement, with minimum purchase requirements increasing by U.S. $660,000 for each subsequent year during the five year term of the agreement. The first shipment is planned for mid-1997. Ceapro has also agreed that Daisen will act as its agent in Japan for the distribution of other animal care products. Daisen is engaged in manufacturing and supplying packaging materials to the pharmaceutical and cosmetics industries, designing and supplying medical laboratory equipment and supplies, and the import and distribution of high value products in several industry sectors throughout Japan. Concurrently with entering into this distribution agreement, Daisen and two of its senior officers purchased an aggregate of 367,334 Common Shares at a price of $3.00 per share.

Ceapro has two additional animal care products in development with the University of Saskatchewan, an equine dermal balm and a canine humectant. The equine dermal balm contains anti-irritants and has been developed to moisturize, soften and condition the skin and the hooves. The equine dermal balm has been tested by veterinarians at various Alberta facilities and at facilities in the United States. Regulatory notification for the marketing of this product has been filed with the HPB. Ceapro intends to launch this product in North America during the next year. A therapeutic version of this product for wound healing is expected to enter clinical trials in 1997. The canine humectant is a moisturizer and conditioner to be used after and between shampoos. This product is in the advanced stages of development, with regulatory filings expected to be made in the last quarter of 1997.

Pharmaceuticals

Human Pharmaceutical Products

Ceapro's pharmaceutical division is developing a number of oat-based pharmaceutical extracts and finished products. Oats, and in particular oat beta glucan, have been well documented as having desirable pharmaceutical properties, including the ability to reduce blood cholesterol levels, moderate post-meal glucose levels in the blood and stimulate the immune system.

A significant market opportunity for Ceapro is the development of a family of products relating to the screening, diagnosis and monitoring of diabetes mellitus (''diabetes'') Type II. Diabetes is a widespread illness that afflicts approximately one out of every 20 people in North America. Diabetes manifests itself in several forms. Type I diabetes (juvenile or insulin-dependent diabetes) appears early in life and necessitates daily insulin injections. Type II diabetes is characterized by the inability of the body to metabolize carbohydrates, which causes an abnormal increase in blood glucose. Type II diabetes (mature-onset or non-insulin dependent diabetes) usually develops in middle-age and generally can be moderated through diet and oral medication, although approximately 25% of individuals having Type II diabetes require daily insulin injections. Approximately 70% of all diabetics are Type II. The predisposition for Type II diabetes may be indicated by impaired glucose tolerance, the first indication of which is elevated levels of blood glucose after a meal. Another form of diabetes is gestational diabetes, which develops during pregnancy and usually concludes following delivery. Up to 5% of expectant mothers experience gestational diabetes, which may have potentially adverse consequences to the fetus if left untreated, and which is associated with increased risk of development of Type II diabetes by the mother later in life.

The long term complications of Type II diabetes can be extremely serious. Type II diabetes is the leading cause of adult blindness, kidney disease and non-traumatic amputation and one of the most important risk factors for coronary heart disease. Diabetes and diabetes related illnesses in North America represent a direct and indirect economic cost of $120 billion per year, including medical expenses as well as lost productivity and premature death. Given the general aging of the population, by the year 2004, it is estimated that one in four North Americans will have diabetes or impaired glucose tolerance.

There are approximately 15 million Type II diabetics in the United States and an estimated one half of these individuals are currently undiagnosed, in part because the current screening processes for diabetes are inadequate. Another 21 million Americans have impaired glucose tolerance, of which half will go on to develop Type II diabetes. At present, diabetes screening and detection is usually based on a fasting blood glucose test. If initial test results are in the normal range, no further tests are done. If initial test results or physical symptoms indicate diabetic potential, a further test, the oral glucose tolerance test, may be undertaken. The oral glucose tolerance test involves overnight fasting, followed by the ingestion of a liquid glucose drink and the measurement of blood glucose levels. A fasting glucose test may not identify diabetic glucose levels which may arise after a meal. The average Type II diabetic has impaired glucose tolerance or diabetes for approximately 10 years prior to diagnosis. The lag in detection is due in part to the reliance on the fasting glucose test as a screening method. The consequences of inaccurate diagnosis are significant, as many of the long term complications of Type II diabetes develop in the early years of the disease.

The Diabetic Screening Product (''DSP'') is being developed by Ceapro for the early detection of Type II diabetes. The DSP is an oat-based product containing precise and calibrated levels of carbohydrate, fat and protein, representing a standardized meal. In-house clinical testing indicates that the digestion of the DSP more closely mimics the physiological responses associated with the metabolism of a normal meal than the oral glucose tolerance test. Preliminary data from the recent pivotal trial of the DSP indicates that the DSP provides significantly more accurate test results than the oral glucose tolerance test in persons with impaired glucose tolerance. The Company believes that the DSP will make it possible to evaluate the benefits of early detection of Type II diabetes and intervention which has not been possible using conventional screening methods.

The Company believes these characteristics of the DSP will make it useful for testing impaired glucose tolerance and screening for Type II diabetes. The DSP may also be used as a standardized meal to allow diabetics to monitor post-meal diabetic responses at home and may be useful in connection with the diagnosis of gestational diabetes. Ceapro currently has patents pending in Canada, the United States and internationally in respect of the DSP. See ''Business of the Company – Intellectual Property''.

The pivotal trial for application of the DSP as a screening product was conducted in collaboration with five university hospitals across Canada, and was completed in December 1996. Ceapro is preparing to submit the DSP to the HPB and to the FDA for 510(k) regulatory approval and, if required, will carry out further clinical trials in

accordance with regulatory requirements. Ceapro intends to seek a strategic alliance to market and sell the DSP. Management is currently targeting strategic partners and discussions have been commenced in some cases.

In connection with the development of the DSP and other diabetes-related products, Ceapro has established an expert panel composed of specialists in the field of diabetes. The primary mandate of the expert panel is to assess the quality of the research projects and programs carried out by Ceapro in this area. The members of the expert panel are as follows:

Dr. Jean Louis Chiasson, M.D., Professor of Medicine, University of Montreal; Director, Research Group on Diabetes and Metabolic Regulation.

Dr. Maureen Harris, Ph.D., Director of the National Institutes of Diabetes Data Group, Health and Diabetes and Digestive and Kidney Diseases, Bethesda, Maryland.

Dr. Rury Holman, F.R.C.P, Honourary Consulting Physician, Diabetes Research Laboratories, Radcliffe Infirmary, Oxford, England.

Dr. F.Q. Nuttall, M.D., Ph.D., Professor of Medicine, University of Minnesota; Chief of Metabolics, Department of Veteran Affairs Medical Centre, Minneapolis, Minnesota.

Lipsorex®, a patented topical liquid gel formulated to alleviate the symptoms of cold sores (herpes simplex type I infections), is currently being sold in major pharmacies in Canada. This product is a non-oat-based product which was licensed by Vexco prior to its amalgamation with Ceapro. Lipsorex® has been approved by the HPB and the FDA and was introduced to a test market in late 1995 and launched across Canada in late 1996. Lipsorex® is manufactured by a contract manufacturer and distributed in Canada through an external product management company. A monthly management fee of $5,000 and sales commissions are paid by Ceapro to the product management company in connection with these services. In connection with the transfer to Ceapro of the intellectual property rights relating to Lipsorex®, Ceapro will pay a royalty of 3% of net receipts on Lipsorex® to Polyflo Chemicals Ltd. Ceapro is currently assessing the commercial viability of three additional topical products related to Lipsorex®, Acsorex (an acne treatment), Gensorex (a treatment for genital herpes) and Ex-Riasis (a psoriasis treatment).

The Company has engaged Marketforce Communications Inc. (‘‘Marketforce’’) to provide marketing consulting services relating to Lipsorex® and the DSP. These services include assisting Ceapro to develop a strategic market direction for each of Lipsorex® and the DSP. Marketforce is developing and managing a communications plan for Lipsorex® and assisting in the preparation of a licensing dossier and positioning of the DSP. In connection with these services Marketforce receives a monthly fee of $2,500 and is entitled to receive up to 55,555 Common Shares upon reaching certain marketing milestones in respect of Lipsorex® and the DSP. See ‘‘Capitalization’’.

Another non-oat based technology under investigation by Ceapro’s pharmaceutical division is immune response factors or cytokines. These cytokines appear to stimulate the production of antibodies and may be useful in restoring immune function in elderly and immuno-compromised patients. This research was initiated by Vexco, and is being continued by Ceapro with the University of Ottawa and the Ottawa Civic Hospital under the terms of a joint research project entered into in October 1994. Under this agreement Ceapro has provided the University of Ottawa with funding in the amount of $288,000 and is committed to provide a further $238,000. The intellectual property rights which may result from this project will be jointly held by Ceapro and the University of Ottawa.

Improvements in the patented fractionation technology have also allowed Ceapro and Agriculture and Agri-Food Canada scientists to extract other potential pharmaceutical compounds from oats. Compounds extracted and characterized to date include avenanthramides and tricin. Avenanthramides and tricin are complex compounds found only in oats that are being studied for pharmaceutical activity including anti-oxidant, anti-inflammatory and anti-tumour responses.

Veterinary Pharmaceutical Products

Ceapro is developing a number of products and treatments designed to enhance animal health and performance. A series of mastitis treatments for use in the dairy industry are at various stages of development. These products include a teat dip, udder balm and injectable therapeutic product. Mastitis is an inflammation of the mammary gland most commonly caused by bacteria entering the teat canal. It is caused by a wide range of bacteria, the multiple strains of which make prevention and control difficult. Mastitis affects productivity levels by reducing a cow’s milk yield. As well, milk from mastitic animals is of poor quality and, if the animal is being treated with antibiotics, cannot be used for human consumption. Milk and dairy product losses due to mastitis in the United States are estimated at $2 billion annually. There are approximately 5 million dairy cattle in North America and the Company believes that the demand

for a natural treatment to replace or reduce the current dependency on antibiotics presents a significant market opportunity for Ceapro.

Studies have demonstrated the efficacy of post-milking teat-dips or sanitizers in reducing new mammary infections. Ostar® extracts with potential utility in teat-dips include Ostar Arriveen® as an anti-irritant to reduce chapping, Ostar® beta glucan as an emollient and immune stimulant, and saponins from oats and quinoa as natural anti-microbial compounds and transdermal immune stimulants. The use of natural oat-based products, ordinarily consumed by humans, rather than antibiotics in the treatment of mastitis may allow animals removed from milk production for treatment to be returned to production sooner. The Company intends to commence field trials on the teat-dip in the summer of 1997.

Ceapro is also developing a wound healing balm for the treatment of cuts and scratches on the udder and teats based on the wound-healing and anti-irritant properties exhibited by Ostar® beta glucan and Ostar Arriveen®. This product is in the early stages of development.

In conjunction with North American and European dermatologists and veterinary surgeons, Ceapro is developing new surgical dressings and treatments based on the immune stimulation properties of Ostar® beta glucan and the anti-irritant properties of Ostar Arriveen®. Ceapro intends to commence in-house clinical testing of these products this year. Ceapro is also conducting research on treatments based on Ostar® beta glucan and saponins extracted from oats and quinoa to act as immune system stimulants that help fight infection and disease in animals and as a potential adjuvant for use with vaccines. Any products resulting from this research will require full clinical testing and regulatory approval as pharmaceutical products. See ‘‘Business of the Company – Regulation’’.

As part of these development efforts, Ceapro is working with the University of Saskatchewan and has made a five-year financial commitment to the University in the amount of $500,000 for research and development, of which not less than $300,000 must be paid by May 1, 1998. See ‘‘Business of the Company – Intellectual Property’’.

Functional Foods

Functional foods are foods which confer a specific medical or health benefit. Ceapro’s functional foods division is developing a family of products originally based on the high beta glucan Ostar® bran. Ceapro’s Ostar® bran contains 16-20% beta glucan compared to typical dry-milled commercial concentrations of 6-9%.

Due to regulatory requirements, Ceapro’s fractionation plant operates using methanol, a denaturant, in the wet-milling process. As a result, the fractionation plant is not currently capable of producing certain extracts for use in food products. Ceapro is currently completing regulatory requirements for the use of an alternative denaturant which will enable it to produce limited quantities of food grade extracts for product development and efficacy testing purposes. As market opportunities develop, Ceapro intends to take steps to allow it to produce commercial volumes of its extracts, and in particular Ostar® oat bran, for use in food products.

Ceapro intends to develop functional foods to capitalize on the market opportunity associated with the trend towards healthy eating and the emerging regulatory framework for food specific health claims. The FDA recently approved the use in the United States of health claims on food labels referring to the association between soluble fibre from oats, as part of a diet low in saturated fat and cholesterol, and a reduced risk of heart disease. This is the first food specific health claim permitted by the FDA. Japan is recognized as the leader in the development of a regulatory environment for functional foods. In Japan, the Ministry of Health allows health claims to be made in connection with foods for specified health use (FOSHU), being foods which have been proven to have specific health benefits in addition to nutritional value. To date, this designation has been used 73 times on products ranging from frozen yogurt (containing the functional component lactosucrose) to frankfurt sausage (containing the functional component indigestible dextrin). Although health claims are not yet permitted on food labels in Canada, Ceapro is participating in an advisory committee initiated by Health Canada to study the establishment of a regulatory framework which would permit food specific health claims. Health claims associated with Ceapro’s functional food products will be subject to regulatory approval in countries allowing such claims. Ceapro intends to seek approval for its products in Japan and the United States.

Ceapro has developed modified Japanese udon and soba noodles containing high levels of beta glucan. The Company has begun preliminary discussions with potential partners to participate in final product development and efficacy testing to support functional food claims where current regulations permit.

Ceapro has also developed a non-dairy based yogurt substitute made from oat bran and having the texture, taste and appearance of yogurt. This product is low in fat, high in fibre and contains no lactose. The Company is currently assessing market opportunities for this product.

Ceapro, in collaboration with the University of Toronto and University of Alberta, is developing prototype functional foods for diabetics, including bread, pasta and snacks. When ingested with a meal, foods containing appropriate levels of oat beta glucan have been shown to moderate the increase in blood glucose (hyperglycaemia) after eating. The importance of dietary fibre in preventing and controlling Type II diabetes has been confirmed in a prospective study contained in the February 12, 1997 issue of the Journal of the American Medical Association entitled ''Dietary Fiber, Glycemic Load, and Risk for Non-insulin-dependent Diabetes Mellitus in Women''. This study reported the results of a dietary survey of 65,000 female nurses over six years. Women with both a low fibre intake and high glycemic load (consumption of food whose carbohydrate content can be easily converted into blood glucose) were 2.5 times more likely to develop diabetes than those with high fibre intake and low glycemic load. Ceapro intends to seek partners to further develop this product line.

Production

Ceapro operates a fractionation plant in Saskatoon, Saskatchewan which, in April 1996, commenced pre-commercial production of oat extracts for initial introduction and field testing in a variety of consumer health products. This facility was originally constructed to validate and optimize the fractionation process and to produce extracts for use in the cosmetics market. The land on which the facility is located is held pursuant to a long term lease and the facility is subject to a fixed charge in favour of a Canadian chartered bank pursuant to a debenture dated September 7, 1994. A 5,000 square foot warehouse and ancillary process facility is leased by the Company in a Saskatoon industrial park and supports the main facility.

Ceapro's fractionation facility has enabled numerous process modifications and the discovery of new extracts. This facility is capable of processing up to 15,000 tonnes of oat groats per year, depending on the extracts produced. Over the past five months, the plant has processed an average of 171 tonnes of oat groats per month. Ceapro is conducting tests on process modifications to improve productivity, enhance capacity utilization and improve quality.

As market opportunities develop for Ceapro's oat extracts, production capacity must be increased to efficiently respond to increased demand. Ceapro is testing process modifications to improve productivity, improve capacity utilization and enhance product quality. Successfully tested process modifications may be implemented at Ceapro's existing fractionation facility. In addition, if sufficient demand for its products at sufficient margins develops, Ceapro intends to construct a new facility which will increase capacity, permit economies of scale and improve production efficiencies by enabling it to run fractionation processes in respect of Ostar® starch/protein, Ostar Arriveen® and Ostar® beta glucan simultaneously, which is not possible at the current facility. Preliminary engineering studies have been completed on a proposed new integrated fractionation plant capable of processing approximately 50,000 tonnes of oat groats annually. Based on the preliminary engineering studies, the cost of such a facility is estimated to be $75 million. See ''Risk Factors – Limited Production Facilities''.

Due to regulatory requirements, Ceapro's fractionation plant operates using methanol, a denaturant, in the wet-milling process. The presence of trace amounts of methanol in cosmetics and personal care products is not a health concern; however, the fractionation plant is not currently capable of producing certain extracts for use in food products. Ceapro is currently completing regulatory requirements for the use of an alternative denaturant which will enable it to produce limited quantities of food grade extracts for product development and efficacy testing purposes. As market opportunities develop, Ceapro intends to take steps to allow it to produce commercial volumes of its extracts for use in food products. See ''Business of the Company – Regulation''.

Ceapro also utilizes contract manufacturers where appropriate. Currently, the DSP, Lipsorex® and Dr. Redmond's Animal Coat Wash™ are manufactured by contract manufacturers.

Research and Development

The Company performs basic and clinical research, both internally and through arrangements with external institutions and organizations that provide access to specific expertise. Ceapro employs as staff or consultants 15 scientists, two physicians, one veterinarian and four engineers having a broad range of expertise in areas including biochemistry, chemistry, diabetes, endocrinology, food science, immunology, infectious diseases, medicine, sensory evaluation and veterinary medicine. In addition to this in-house expertise, collaborative research arrangements with external partners form an integral part of the Company's approach to developing technology and products.

The Company carries out research at its facilities in Saskatoon, Ottawa and New York. The POS Pilot Plant Corporation (''POS'') pilot plant (a contract research facility) and the Canamino facility in Saskatoon are used to develop process modifications. The Ottawa facility consists of 4,000 square feet of laboratory and office space equipped for basic research and formulation activities. The Company also has a facility at Long Island, New York, which includes a customer support laboratory for the development of custom formulae.

The origins of much of the Company's technology are Canadian universities and government laboratories. This has given the Company an ongoing relationship with experts in the fields of cereal chemistry, biochemistry, immunology, dermatology and diabetes. Although coordinated with outside experts, Ceapro takes an active role in managing collaborative projects.

The Company has contracted the services of specialist contract clinical research organizations to evaluate products in development. These controlled studies conform to the requirements of the FDA and HPB, and involve the use of statistically appropriate numbers of subjects. The requirements of regulatory agencies are defined in terms of fully controlled, randomized clinical trials.

An expert panel of scientists has been established in respect of the development of the Company's diabetic products and the Company intends to establish similar panels for its functional food, veterinary and consumer health products.

Intellectual Property

With technology and innovation as central elements of its strategy, Ceapro devotes considerable effort to protecting its core technology and product formulations. Ceapro has sub-licensed the exclusive rights to the wet-milling oat fractionation technology from NVI pursuant to an amended and restated agreement between Canamino and NVI dated January 1, 1997. NVI, a subsidiary of POS established to commercialize technology developed by or in conjunction with POS, holds the master license of the technology from Agriculture and Agri-Food Canada. Patents have been issued to Agriculture and Agri-Food Canada in respect of the fractionation technology (a method of producing stable bran and flour products from cereal grains) in each of Canada and the United States.

Under the sub-license from NVI, Ceapro is required to pay a royalty for the use of the patented oat fractionation technology equal to 3% of the cumulative annual net sale proceeds received by Canamino on sales of core oat extracts. The royalty is subject to reductions on a sliding scale for cumulative annual net sales proceeds in excess of $50 million and is subject to a minimum royalty of $75,000 in 1997, $125,000 in 1998, $150,000 in 1999 and $200,000 for each year thereafter. The sub-license may be terminated by NVI if: (i) the Company fails to make a required royalty payment when due and allows such default to remain unremedied for a period of 20 business days after receiving notice of default; (ii) the Company defaults in the performance of any of its other obligations under the sublicense and allows such default to remain unremedied for a period of 30 business days after receiving notice of default; or (iii) a new integrated fractionation plant with the capacity to process not less than 50,000 tonnes of oat groats annually is not completed and capable of producing commercial product by January 1, 2000. As well, pursuant to the sub-license, NVI has the option, exercisable for a period of 180 days, to convert the sub-license to a non-exclusive license if royalty payments from the Company do not exceed the minimum specified royalty payments during any three consecutive years commencing after January 1, 1999. See ''Risk Factors – Future Capital Requirements'', ''– Dependence on Oat Fractionation Technology'' and ''– Limited Production Facilities''.

Pursuant to an agreement dated January 1, 1997 between Agriculture and Agri-Food Canada, NVI and Canamino, if NVI defaults under the master license and fails to remedy the default within a specified grace period, Canamino is entitled to remedy the default of NVI and to be substituted for NVI under the master license. In the event of such a substitution, the sub-license will terminate and the royalty payable by Canamino under the master license will equal 50% of the royalty which would have been payable to NVI under the sub-license.

Ceapro expects that its strategy to continuously improve the fractionation technology will lead to opportunities to develop additional fractionation processes and product uses which may be capable of being patented.

Pursuant to an agreement between Ceapro and Agricoll Research Investments Inc. (''Agricoll''), a company associated with the University of Saskatchewan, dated July 1, 1995, Agricoll sub-licensed to Ceapro the technology under certain patents relating to the cereal beta glucan extraction process and the extraction and use of immune stimulants from quinoa. This sub-license terminates on the later of the expiration of the last remaining patent or

10 years from the date of the first commercial sale (defined as the first calendar month with sales greater than $50,000) of products using that technology. As a condition of the sub-license, Ceapro has agreed to pay the University of Saskatchewan an aggregate of $500,000 in respect of research and development funds by July 1, 2000, of which not less than $300,000 must be paid by May 1, 1998.

Ceapro also has rights to patents issued to third parties in respect of the following technology: processing aqueous treated cereals, cereal beta glucan production, quinoa saponins and methods of use as immune stimulants (issued in the United States and pending in Canada) and topical treatment of skin disorders (issued in Canada and pending in the United States). Ceapro currently has Canadian, United States and international patents pending in respect of a solid oral diagnostic test meal and methods of use and in respect of quinoa saponins and methods of use in drug delivery.

Suppliers

Ceapro intends to develop and enhance the patented fractionation process in part through the utilization of new varieties of oats, the characteristics of which can be selected depending on the fractions required. Ceapro is actively working with Agriculture and Agri-Food Canada and the Alberta Wheat Pool to identify varieties of oats and other grains which are weather resistant and yield larger quantities of desirable extracts from the fractionation process. The Alberta Wheat Pool is a farmer-owned cooperative that handles and markets grain, specialty crops, seeds and oil seeds in domestic and international markets and provides western Canadian farmers with fully integrated grain handling, marketing and agri-business services.

Effective January 31, 1997, Ceapro and the Alberta Wheat Pool entered into an agreement creating a strategic alliance between the parties. Pursuant to this agreement the Alberta Wheat Pool will supply oats to Ceapro for a period of 10 years at a price equal to the Chicago oat futures price plus a domestic market premium. Under the agreement, Ceapro is required to purchase all of its oats from the Alberta Wheat Pool and in return the Alberta Wheat Pool guarantees the supply of oats to Ceapro and has agreed to work with Ceapro and Agriculture and Agri-Food Canada to supply oat varieties which increase the yield and value of outputs from the fractionation process. The Company believes that this strategic alliance will allow it to focus on the continuing development of the fractionation technology and new products while gaining the benefits of a guaranteed source of supply and assistance in the development of new oat varieties. Concurrently with entering into the supply agreement, the Alberta Wheat Pool purchased the Special Warrants.

Competition

The competition faced by Ceapro's products must be assessed from three perspectives:

(i) competition at the oat fractionation level, such as grain millers and large companies focusing on specific, basic fractions (i.e. oat starch, oat flour and oat oil), primarily through dry-milling;

(ii) competition from products that compete with oat fractions, such as corn starch, aloe vera, flax, lanolin and wheat protein; and

(iii) products that compete with Ceapro's finished products.

Large grain millers, for example Quaker Oats Company and National Starch and Chemical Company, can produce basic oat components, such as oat flour, oat starch and oat bran, using dry-milling processes in larger quantities and in a more cost effective manner than Ceapro. These companies also have significantly greater financial resources than Ceapro, which may be brought to bear in product development and regulatory approval efforts. Ceapro, however, has a competitive advantage as the patented fractionation technology enables it to produce a purer form of basic extracts such as Ostar® flour and Ostar® starch and to produce additional high value-added fractions not currently capable of being produced by other millers. Ceapro may also be indirectly aided by the efforts of larger companies in the industry to promote oats and oat-based products. These efforts have recently resulted in the FDA approving a health claim relating to the heart health benefits of oat bran and oat beta glucan. Ceapro is currently developing a number of products which incorporate the specific oat fractions on which the FDA permitted claim is based. As well, the Company's strategy is in part based on the development of proprietary products, some of which may be the subject of licensing arrangements with larger companies who have extensive marketing and distribution systems.

A large number of companies are involved in the production of natural ingredients and extracts used in consumer health products. These ingredients include corn starch, aloe vera, flax, lanolin and wheat protein. Because of increasing demand for naturally-sourced raw materials, a number of large multi-national manufacturers of synthetic raw materials, such as Henkel KGaA, Croda International Plc. and Hoffman LaRoche Inc., have redirected resources to produce raw materials from natural sources. Competition also continues to be strong from technology-based emerging companies, similar to Ceapro, competing for a portion of the growing natural products market. Competition in this context is largely dependent on the characteristics, quality and efficacy of particular ingredients or extracts for a specific product use. Ceapro believes that the purity and unique health benefits of the oat extracts produced using the patented fractionation technology, along with the efficacy data being developed by Ceapro in support of its oat extracts, places Ceapro in a strong competitive position in relation to other industry participants.

With respect to the markets in which extracts, formulations and finished products developed and produced by Ceapro are used, each of the consumer health products and pharmaceutical markets are dominated by large multi-national corporations. These industries are characterized by abundant research, rapid technological change and intense competition. Novel research and product concepts in these industries are often generated by smaller companies with specific technological and product development expertise. Ceapro's consumer health products and pharmaceutical divisions intend to focus on specialized research and product development relating to natural product extracts which may have application in these markets and to introduce these products through licensing and distribution agreements with industry players capable of bringing these products to the market.

The functional foods market, due to the lack of an established Canadian regulatory environment and the relatively recent development of a specific market for these products in other jurisdictions, is much less developed, although major food products companies, such as Quaker Oats Company, are pursuing opportunities relating to the functional foods market. Ceapro believes that as these companies enter this market they will find the Company's technology and oat-based products very attractive, thereby creating opportunities for collaborative efforts and licensing arrangements.

In each of these areas, Ceapro's competitors may (i) use different technologies or approaches to develop products similar to the products that Ceapro is endeavouring to develop, (ii) develop new or improved products or processes that may be more effective, less expensive or more readily available than the products developed by Ceapro, or (iii) succeed in obtaining regulatory approvals for their products before Ceapro. With respect to these factors, the Company believes that its competitive advantage lies in its ability to use the patented fractionation technology to produce a purer, and therefore more desirable, form of basic oat-based extracts and to fractionate these basic extracts into further value-added components having significant health benefits. Ceapro believes that its ability to fractionate oats into these substantially pure extracts and value-added components is not currently capable of being reproduced by its competitors, thereby creating an incentive for participants in the markets served by Ceapro to develop collaborative relationships with the Company to develop and bring to the market innovative or improved natural health products. See ''Risk Factors''.

Employees

On April 30, 1997, including employees of Canamino, the Company had 53 employees in the areas of consumer health products, pharmaceuticals, functional foods, production, research and development, and finance and administration. Ceapro's employees are not represented by any collective bargaining organization, and Ceapro has never experienced a work stoppage.

Regulation

The Company's products are subject to legislation, enforced by one or more regulatory agencies in Canada, the United States and elsewhere. In Canada, all substances sold for ingestion by humans are regulated either as a food or drug under the *Food and Drugs Act* (Canada) and the regulations thereunder (the ''Act''). The Act also includes provisions for the regulation of cosmetic ingredients and preparations. The Act is enforced by the HPB and Agriculture and Agri-Food Canada. The Act governs the processing, formulation, packaging, labelling and advertising of a number of the Company's current and potential products and regulates what may be represented to the public on labels and in promotional material, in respect of the properties of such products.

Consumer Health Products

The sale of cosmetics and other personal care products in Canada requires the notification of the HPB by way of a submission listing all product ingredients. Manufacturers of cosmetic and personal care products provide ingredient specifications and safety and other reference material to the Cosmetic, Toiletry and Fragrance Association, Inc. International Nomenclature Cosmetic Ingredient database which is then used by regulatory agencies to approve products for sale. Other jurisdictions have filing procedures similar to Canada's, and the Company must fulfil these international registration procedures before sales of its products can occur.

In the United States, the Company and its cosmetics and other personal care products are subject to regulation by the FDA and the Federal Trade Commission (''FTC''). Such regulation relates primarily to the ingredients, packaging, labelling, advertising and marketing of the Company's products and products incorporating the Company's extracts. Cosmetics do not require premarket notification to, or premarket approval by, the FDA, but must be properly labelled and manufactured. The FTC oversees the advertising of cosmetic products and prohibits false or misleading advertising. In addition to cosmetic products (being products intended to be applied to the body to cleanse, beautify, promote attractiveness or temporarily alter appearance), certain of the Company's personal care products may be classified by the FDA as new drugs (being products intended to cure, mitigate, treat or prevent disease, or have other than a temporary effect on the structure or function of the body), as well as or instead of cosmetics, based on ingredients, their concentrations or labelling, advertising, or promotional material. Most over-the-counter (''OTC'') drugs are marketed in the United States without FDA prior approval under FDA regulations that permit such OTC marketing if the FDA has issued a monograph with respect to that drug (including its ingredients and indications and/or claims), and the product and its labelling comply with that monograph. In the absence of such a monograph, the preclinical and clinical testing, manufacture, labelling, distribution, sale, advertising and marketing of new drugs are subject to extensive and rigorous regulation by the FDA, and, as discussed below, new drugs must undergo an extensive regulatory approval process before they can be marketed.

Pharmaceuticals

In the United States, for certain of its products, and in particular those products for which there is an equivalent FDA-approved product currently in the market, the Company may be eligible to rely on the premarket notification procedures under section 510(k) of the United States Food, Drug and Cosmetic Act. Section 510(k) requires manufacturers of medical devices to notify the FDA at least 90 days in advance of their intent to market a medical device. This process allows the FDA to determine whether the device is equivalent to a device already placed into one of three classification categories. If equivalency is established, section 510(k) enables a manufacturer to market its product in the United States. Management intends to make a submission under the 510(k) process proving substantial equivalence of the DSP to the oral glucose tolerance test in screening of Type II diabetes.

In Canada, products such as the DSP may be classified as diagnostic devices and therefore be subject to an abbreviated form of the drug approval process described below.

Although none of the Company's products are currently in the drug approval process, the process may apply to certain pharmaceutical products currently being developed by Ceapro's pharmaceutical division. In Canada, clinical trials of new pharmaceutical products involve three phases, conducted under what is known as ''investigational new drug (''IND'') submissions''. In Phase I, the product's efficacy and safety are assessed during clinical trails involving patients and healthy volunteers. In Phase II, the product's efficacy, dosage, side effects and safety are tested on a small number of patients with the condition that the product is intended to treat. In Phase III, controlled clinical trials are conducted in which the product is administered to a large number of patients with the condition that the product is intended to treat, and in which further information relating to the safety and efficacy is gathered. Further, in Phase III, the effectiveness of the product is compared to that of accepted methods of treatment. If clinical studies establish that the product has value, an applicant files a new drug submission (''NDS'') with the HPB to obtain marketing approval for the product. The NDS includes a comprehensive summary and analysis of the results of the clinical trials, information relating to proposed labelling and packaging materials, and data relating to the proposed manufacturing and quality control procedures. If the NDS is found to be satisfactory, the HPB issues a Drug Identification Number (''DIN'') and a notice of compliance (''NOC'') permitting sales of the new products in Canada under the conditions specified in the NOC.

In the United States, new drugs require FDA approval of a marketing application (i.e., a new drug application or product license application) prior to commercial sale. To obtain marketing approval, data from adequate and well-controlled clinical investigations, demonstrating to the FDA's satisfaction a new drug's safety and effectiveness for its intended use, are required. Such data are generated in studies conducted under an IND application, similar to a NDS. Clinical studies are characterized as Phase I, Phase II and Phase III trials. In a marketing application, the applicant must also demonstrate the identity, potency, quality and purity of the active ingredients of the product involved, and the stability of these ingredients.

The process of completing clinical trials and obtaining regulatory approvals for a new drug will, in general, take a number of years and may require the expenditure of substantial resources. Once a new drug or product license application is submitted, there can be no assurance that the HPB or FDA will review and approve the application in a timely manner. Even after initial approval has been obtained, further studies, including post-marketing studies, may be required to provide additional data on safety necessary to gain approval for the use of the product as a treatment for clinical indications other than those for which the product was initially tested. Results of post-marketing programs may limit or expand the further marketing of products. Also, the HPB and FDA may require post-marketing surveillance programs to monitor a product's side effects. A serious safety or effectiveness problem involving an approved new drug may result in HPB or FDA action requiring withdrawal of the product from the market, and possible civil action by consumers or competitors.

Outside of Canada and the United States, the regulatory approval process for the manufacture and sale of pharmaceuticals varies from country to country and the time required may be longer or shorter than that required for HPB or FDA approval. To the extent it chooses to explore foreign markets, the Company may rely on foreign licensees to obtain regulatory approval for marketing its products in foreign countries. The commercialization of the Company's products will be subject to rigorous preclinical and clinical testing and other premarket approval requirements by the FDA and similar authorities in other foreign countries.

The drug approval process for veterinary pharmaceuticals is similar to the process for obtaining approvals for human pharmaceuticals. To receive regulatory approval, a new animal drug must successfully complete a number of development phases. The phases include establishing safety and efficacy in target species as well as the establishment of manufacturing procedures and final product labelling. The final phase of this process includes controlled clinical trials in which the drug is administered to a larger number of such animals, and in which further information relating to safety and efficacy is gathered. Following the clinical trials, the applicant makes a submission to the appropriate regulatory agency for marketing approval.

The manufacturing of pharmaceutical products is subject to extensive regulation by governmental authorities in the United States and Canada. The manufacturing facilities, equipment, processes and quality controls for a new drug must comply with prescribed good manufacturing practice regulations for drugs or biological products, both in a pre-licensing inspection and in subsequent periodic inspections after licensing.

Functional Foods

In Canada, functional foods are not yet recognized as a distinct category under the Act, and health-related claims with respect to foods are not permitted. The HPB has formed a committee to study the establishment of a regulatory framework which would permit health claims to be made in respect of foods. In the United States, the FDA regulates claims relating to food products. In January 1997, the FDA allowed the first health claim to be made relating to food products. Specifically, the FDA permitted a health claim to be made relating to the consumption of oat soluble fibre and the reduction of cholesterol and decreased risk of heart disease.

In Japan, the Ministry of Health and Welfare has defined the terms of Foods for Specified Health Use (FOSHU) under the Nutritional Improvement Law. This law allows claims to be made with respect to products that (i) are foods not in the form of capsules or powders, (ii) are derived from natural ingredients, (iii) can be consumed as part of a daily diet and (iv) have a particular health function when ingested. The licensing procedure under the Nutritional Improvement Law requires examination and approval of both the specific food ingredient and the product incorporating the ingredient. At this time, oat bran is not recognized as a FOSHU ingredient and the functional foods containing Ostar® bran are yet to be approved.

The oat fractionation process used by Ceapro requires ethanol, the use of which is subject to federal regulation in Canada. Excise Canada requires that the use of ethanol in manufacturing processes be controlled through either the use of denaturants in the alcohol (for example, methanol, ethyl acetate or isopropanol), or through bonding of the manufacturing facility and employees at the facility. Due to these regulatory requirements, Ceapro's fractionation plant operates using methanol in the wet-milling process. Although the presence of trace amounts of methanol in cosmetic and personal care products is not a concern, the fractionation plant is not currently capable of producing certain extracts for use in food products. Ceapro is currently completing regulatory requirements for the use of an alternative denaturant which will enable it to produce limited quantities of food grade extracts for product development and efficacy testing purposes. As market opportunities develop, Ceapro intends to take steps to allow it to produce commercial volumes of its extracts, and in particular Ostar® oat bran, for use in food products.

HISTORY OF THE COMPANY

Arrangement

Ceapro is the corporation resulting from the amalgamation of Developments and Vexco pursuant to a plan of arrangement under the ABCA effective January 1, 1997. Pursuant to the arrangement, holders of common shares of Developments received one Common Share for each two common shares of Developments held by them, holders of common shares of Vexco received one Common Share for each four and one-half common shares of Vexco held by them, and all of the common shares of Vexco held by Developments were cancelled. Identical exchange ratios were applied to holders of options to acquire common shares of Developments and holders of options and warrants to acquire common shares of Vexco at the time of the arrangement. In connection with the amalgamation, the Company issued 4,600,000 additional Common Shares. The Lipsorex® product and the DSP are products brought into the Company through the amalgamation with Vexco.

Vexco Healthcare Inc.

Vexco, a predecessor corporation of Ceapro, was incorporated under the ABCA on May 12, 1987. On July 10, 1987, Vexco made an initial public offering of 1,500,000 common shares under the junior capital pool rules and regulations of the Alberta Securities Commission (''ASC'') and The Alberta Stock Exchange (''ASE''). The common shares of Vexco were listed and posted for trading on the ASE on November 18, 1987. Vexco completed its Major Transaction, as required by ASE Circular No. 7, on September 29, 1988 by acquiring an exclusive sub-license to formulate, develop and use Lipsorex®, Acsorex, Gensorex and Ex-Riasis.

Ceapro Developments Inc.

Developments, also a predecessor corporation of Ceapro, resulted from the amalgamation of Ceapro Developments Inc. and Alberta Multi-Ventures Ltd. (''AMV'') under the name Ceapro Developments Inc. on July 1, 1995.

AMV was formed in 1991 to pursue the development of new agricultural processing operations in western Canada. AMV undertook a venture in 1993 with the founding shareholders of Canamino to finance the construction of a fractionation plant for the purpose of proving and optimizing the commercial application of the oat-based technology licensed to Canamino. In connection with this transaction, AMV acquired 51% of Canamino's common shares for $1,000,000 and a commitment to provide or arrange all further financing required. As a result of this venture, construction of Ceapro's existing oat fractionation plant began in 1993. Between July 1, 1995 and December 31, 1996, Ceapro invested $9,620,000 in Canamino, increasing its total investment in Canamino to $11,509,000 and resulting in Ceapro holding 83% of Canamino's common shares. On February 27, 1997, Ceapro acquired the remaining outstanding common shares held by the minority shareholders in Canamino (representing approximately 17% of the issued common shares) in exchange for an aggregate of 676,651 Common Shares. Ceapro now owns all of the issued and outstanding common shares of Canamino.

In connection with an agreement between Canamino and Saskatchewan Government Growth Fund Ltd. (''SGGF'') dated August 27, 1993, SGGF purchased 1,300,000 redeemable, convertible, Class B preference shares of Canamino for $2,600,000 (of which 1,200,000 preferred shares remain outstanding) which entitles SGGF to a quarterly cumulative dividend of 11% per annum and to an additional variable cumulative dividend of 25% per annum of the

after tax net profits of Canamino. In the event of default of payment of either dividend for a period greater than 90 days or if Canamino fails to meet the redemption obligations described below, SGGF has a right to exercise voting control equal to 51% of the voting entitlement until such time as the default is remedied. SGGF exercised this right on September 30, 1995. On October 11, 1996, Canamino remedied the default by remitting the dividend arrears, plus interest and agreed costs, at which time SGGF relinquished voting control. Pursuant to the provisions of the agreement with SGGF, Canamino is obliged on or about October 27, 1997 to redeem 500,000 Class B preference shares at a price of $2.75 per Class B preference share. Canamino is further obligated, on or about October 27, 1998, to redeem the remaining 700,000 Class B preference shares at a price equal to $3.00 per Class B preference share. If any Class B preference shares or dividend amounts owed to SGGF remain outstanding after October 27, 1998, SGGF shall have the right to convert such shares or amounts into common shares of Canamino. The outstanding 1,200,000 Class B preference shares may be redeemed at any time prior to October 27, 1997 at a price equal to $2.50 per Class B preference share, provided that all amounts owing by Canamino to SGGF have been paid in full. This agreement also contains certain standard restrictive covenants in favour of SGGF with respect to the business and operations of Canamino.

Pursuant to a related shareholder contribution agreement entered into in June 1994 among, inter alia, Canamino, Ceapro and SGGF, in the event that the Board of Directors of Canamino determines that additional funds are required by Canamino to service loans and prevent covenant breaches by Canamino given in favour of a Canadian chartered bank and that no alternative means exist to raise funds for such purposes, the Company will be required to contribute the amount of funds specified as a shareholder loan to Canamino. Any such shareholder loans bear interest at bank prime rate plus two percent until paid in full and are repayable on demand following the later of six months from the time the funds are received by Canamino and the time Canamino is in a position to repay the loans without being in default to the bank. A total of $910,633 was advanced to Canamino by Ceapro pursuant to cash calls under the shareholder contribution agreement during the period ending December 31, 1996.

Developments was incorporated specifically to evaluate potential market applications of the oat-based technology in sectors other than the cosmetics industry. Of particular interest were applications in the human and animal healthcare sectors. In July 1995, Developments became a major shareholder in Vexco by acquiring approximately 50% of Vexco's common shares for cash consideration of $150,000. On January 1, 1997, Developments amalgamated with Vexco pursuant to the arrangement described above.

Effective July 1, 1995, Developments entered into an agreement with Agricoll (a Saskatchewan corporation owned by the University of Saskatchewan) to acquire 80% of Minerva Animal Health Corporation's (''Minerva'') common shares for cash consideration of $200,000. Effective November 1, 1996, Developments purchased the remaining 20% of Minerva's outstanding common shares in exchange for the issuance of 182,000 Common Shares. Minerva was wound up into Developments effective December 23, 1996. Minerva had focused on research and development of animal health care products. These activities are now being carried on by Ceapro.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

Ceapro has completed a number of investments and acquisitions in order to strengthen its core oat fractionation technology platform and to broaden its pipeline of products in development. See ''History of the Company''. These investments and acquisitions have resulted in a number of changes in the accounting treatment reflected in the Company's consolidated financial statements. In particular:

(i) Developments' interest in Canamino was accounted for on an equity basis until October 11, 1996 and on a consolidated basis thereafter.

(ii) Developments' interest in Vexco was accounted for on an equity basis until December 31, 1996. On January 1, 1997, Developments amalgamated with Vexco. In connection with the amalgamation, the Company changed its fiscal year end from June 30 to December 31. The six month period ended December 31, 1996 reflects this change in fiscal year end.

(iii) Developments' interest in Minerva has been reported on a consolidated basis since July 1, 1995. Minerva was wound up into Developments on December 23, 1996.

As a result of these transactions and the resulting restructuring of Ceapro, management believes the pro forma consolidated financial statements of Ceapro for the six month period ended December 31, 1996 most accurately reflect the financial position and operations of the Company immediately preceding the commencement of Ceapro's 1997 fiscal year. The December 31, 1996 consolidated financial statements, although prepared in accordance with generally accepted accounting principles, do not give effect to a number of significant transactions, including the amalgamation with Vexco on January 1, 1997, which transpired after December 31, 1996 and which will affect the Company's results in 1997.

Selected Consolidated Financial Information

The following selected consolidated financial information is derived from and should be read in conjunction with, the unaudited consolidated financial statements of Ceapro Inc. and Ceapro Developments Inc. for the three months ended March 31, 1997 and 1996, the pro forma unaudited consolidated financial statements of Ceapro for the six months ended December 31, 1996, the audited consolidated financial statements of Ceapro Developments Inc. for the six months ended December 31, 1996 and 1995 (unaudited) and for the years ended June 30, 1996 and 1995, and the audited financial statements of Vexco for the six months ended December 31, 1996, contained herein.

	Ceapro Inc.	Ceapro Developments Inc.	Ceapro Inc.	Ceapro Developments Inc.			
	Three Months ended March 31, 1997	Three Months ended March 31, 1996	Pro forma Six Months ended December 31, 1996	Six Months ended December 31, 1996	Six Months ended December 31, 1995	Year ended June 30, 1996	Year ended June 30, 1995
	(unaudited)	(unaudited)	(unaudited)	(audited)	(unaudited)	(audited)	(audited)
Income Statement Data:							
Sales	$ 468,082	$ —	$1,396,857	$ 559,543	$ —	$ —	$ —
Gross margin	62,178	—	353,064	42,877	—	—	—
General & Administrative	863,557	196,143	2,501,357	1,622,622	201,934	1,526,527	164,800
Net loss	2,019,225	1,085,443	4,171,089	3,694,994	1,939,809	5,487,425	1,480,996
Net loss per share	(0.13)	(0.09)	(0.29)	(0.20)	(0.21)	(0.52)	(0.22)

	Ceapro Inc.		Ceapro Developments Inc.			
	At March 31, 1997	Pro forma at December 31, 1996	At December 31, 1996	At December 31, 1995	At June 30, 1996	At June 30, 1995
	(unaudited)	(unaudited)	(audited)	(unaudited)	(audited)	(audited)
Balance Sheet Data:						
Capital assets	$8,466,344	$ 8,306,757	$ 8,265,710	$ 4,687	$ 86,116	$ 4,905
Patents, licenses and other intangibles	31,593,004	28,656,872	6,023,218	248,786	350,271	—
Total assets	45,362,768	44,989,456	18,570,894	1,879,481	4,382,155	1,250,350
Long term debt	4,607,959	4,678,359	4,678,359	148,500	148,500	98,500
Class B preferred shares of subsidiary	3,000,000	3,000,000	3,000,000	—	—	—
Total liabilities	10,057,332	10,873,909	10,603,327	2,932,879	1,951,051	2,131,526
Shareholders' equity (deficiency)	35,305,435	34,115,547	7,967,567	(1,053,398)	2,431,104	(881,176)

Ceapro commenced pre-commercial production at its Canamino oat fractionation facility in April 1996. Since then, the Company has sold Ostar® oat extracts to various customers for new product introductions and field testing in a variety of consumer health products. Increasing sales of extracts in the consumer health products sector is a key component of Ceapro's strategy. During the past year, Ceapro has experienced inconsistent sales levels, which are expected to continue until the Company secures regular orders from its customer base. Short fractionation runs of oat groats have been required to meet low initial volume of demand, creating relative inefficiencies in production, and low gross margins. Gross margins, although varying with the product mix, generally improve as volume increases due to economies of scale and improved efficiencies.

Ceapro's expenses currently reflect the combined operations of the three predecessors to Ceapro Inc. as well as the operations of Ceapro's wholly-owned subsidiary, Canamino. Management has initiated the centralization of certain corporate and operational functions and is currently identifying other potential areas for further rationalization and cost savings.

Consolidated three months ended March 31, 1997

Accounting Treatment

The three month period ended March 31, 1997 is the first period to reflect the combined activities of Ceapro Inc. resulting from the amalgamation of Developments and Vexco on January 1, 1997. Canamino, as a wholly-owned subsidiary of Ceapro Inc., was accounted for on a consolidated basis throughout this period.

Sales and Gross Margin

In the three months ended March 31, 1997, the Company achieved consolidated sales of $468,000. During this period, a number of Ceapro's major customers were conducting market tests of their products which incorporate Ostar® oat extracts and, as a result, did not place regular purchase orders. The gross margin achieved in the three months ended March 31, 1997 was 13%, resulting from inconsistent production levels and the write-off of certain obsolete inventory from Vexco ($11,000).

Expenses

Expenses on a consolidated basis, excluding amortization and interest, totalled $1,660,000 for the three months ended March 31, 1997. These expenses reflect the effects of a more centralized administrative and operational structure, offset to a certain extent by higher activity levels during the quarter. Indicative of these influences, market development costs were $283,000 and research expenses were $327,000, reflecting efficacy studies undertaken to enhance product marketability in the consumer health products sector. During the period, general and administrative expenses were $863,000, which included salaries and consulting fees of $367,000. In addition, non-recurring expenses associated with restructuring and financing activities included professional fees of $172,000 in respect of matters such as the renegotiation of the sublicense agreement with NVI. Also included in general and administrative expenses are restructuring and relocation costs of $120,000, related to severance costs for employees not retained by the Company, as well as occupancy costs associated with surplus premises. Amortization charges during the three months ended March 31, 1997 were $400,000 relating to the depreciation of capital assets, primarily of Canamino, and patents, licenses and other intangibles.

Consolidated six months ended December 31, 1996 compared to Pro Forma Consolidated six months ended December 31, 1996

Accounting Treatment

During the six months ended December 31, 1996, Ceapro increased its investment in Canamino to 83%, but only gained voting control of Canamino on October 11, 1996. Accordingly, Canamino's activities were accounted for on an equity basis from July 1 to October 11, and on a consolidated basis from October 12 to December 31. Vexco continued to be accounted for on an equity basis for the entire period.

The pro forma consolidated statements reflect the amalgamation with Vexco and consolidation of Canamino as of July 1, 1996.

Sales and Gross Margin

Sales for the six month period ended December 31, 1996 amounted to approximately $560,000, with a gross margin of $43,000, based on Ceapro's consolidated sales at Canamino from October 12, 1996. On a pro forma consolidated basis, sales amounted to approximately $1,397,000 with a gross margin of $353,000, reflecting the entire period's activity at Canamino. There was no other sales activity during that six month period in 1996 on a historical or pro forma consolidated basis.

Expenses

Expenses for the six months ended December 31, 1996 of $2,354,000 consisted mainly of general and administrative expenses of $1,622,000, including salaries of $523,000, legal and audit expenses of $180,000, operating overhead at Canamino of $213,000 from October 12, 1996, office and general expenses of $256,000, travel expenses of $110,000, Board of Directors expenses of $98,000 and settlement of a law suit related to plant construction of

$112,000. The remainder of the expenses in the 1996 period consisted of amortization of $309,000, research and development expenses of $270,000 and interest expense and dividends paid on the preferred shares of Canamino of $150,000.

On a pro forma consolidated basis, expenses for the six month period ended December 31, 1996 reflect the consolidation of Canamino and Vexco for the entire period. The higher general and administrative expenses of $2,501,000 include salaries of $745,000, operating overhead at Canamino of $472,000.

During the six month period ended December 31, 1996, a significant component of the expenses incurred represent non-recurring costs associated with the investments in the subsidiaries and the restructuring activity. Significant expenses were incurred in the form of professional fees relating to the resolution of issues arising from the investment by SGGF in Canamino, and additional audits and Board of Directors meetings required during the period, in connection with the restructuring activity. Non-recurring professional fees of $900,000 in respect of the amalgamation of Vexco were capitalized against the costs of the respective investments.

Net Loss

Ceapro recorded a net loss in the six month period ended December 31, 1996 of $3,695,000, which was represented in part by Ceapro's share of the losses of Canamino and Vexco of $995,000 and $484,000, respectively. The share of the net loss of Canamino reflects activity from July 1 to October 11, and includes sales of $730,000 and gross margin of $225,000. Ceapro's proportionate share of expenses includes: $430,000 in amortization, $216,000 in operating overhead, $200,000 in general and administrative expenses, $279,000 in interest on debt and dividends on the preferred shares of Canamino and $96,000 in advertising and promotion expenses. The recorded loss of Vexco reflects Ceapro's proportionate share of activity for the full six months and includes initial sales of Lipsorex® amounting to $50,000 and gross margin of $40,000. The share of the net loss of Vexco includes expenses of $225,000 including general and administration expenses of $55,000, travel and industrial relations expenses of $39,000 and rent and other office expenses of $35,000, $190,000 in advertising and promotion expenses and $110,000 in research and development expenses.

The increased net loss on a pro forma basis for the six month period over that in the audited consolidated statements arises from the inclusion of all of Canamino's and Vexco's losses for the period.

Consolidated six months ended December 31, 1996 compared to six months ended December 31, 1995

Accounting Treatment

During the period ended December 31, 1995, Ceapro, as a holding company, accounted for its investments in Canamino and Vexco on an equity basis.

Sales and Gross Margin

During the six month period in 1995 there were no sales or gross margin as Ceapro had not commenced commercial production using the fractionation technology.

Expenses

Expenses increased from $482,000 in the six months ended December 31, 1995 to $2,354,000 during the same period in 1996. As with the 1996 period, in the 1995 period the expenses consisted primarily of general and administrative expenses of $202,000 (legal and audit expenses of $115,000 and salary, office and travel expenses of $87,000). The remainder of the expenses in the 1995 period consisted of interest on short term debt of $215,000 and research and development expenses of $65,000.

Net Loss

Ceapro's net loss for the six months ended December 31, 1995 includes Ceapro's proportionate share of the losses in Canamino and Vexco of $1,260,000 and $209,000, respectively, for an aggregate net loss of $1,940,000, compared to a net loss of $3,695,000 for the same period in 1996. During the period ended December 31, 1995, each subsidiary had only nominal sales and their expenses related to salaries, professional fees, interest and financing costs. The loss reflects minimal commercial activities in the subsidiaries.

Consolidated twelve months ended June 30, 1996 compared to twelve months ended June 30, 1995

Sales and Gross Margin

Ceapro recorded no sales in either of the twelve month periods ended June 30, 1996 and June 30, 1995.

Expenses

Expenses for the 1996 period were $2,041,000 compared to $483,000 in the 1995 period. In the twelve months ended June 30, 1996 the increase in expenses is attributable to the commercialization and the restructuring activities discussed above. Expenses in 1995 consisted of interest on short term obligations of $195,000, research and development expenses of $55,000, the write-off of a loan receivable of $63,000 and general and administrative expenses of $165,000 (audit and legal expenses of $30,000, salaries of $27,000, general office and travel expenses of $73,000 and financing charges of $36,000). Canamino had only nominal sales in this period, and the share of the loss relating to Canamino is primarily interest expenses and administrative expenses (professional fees, salaries and other overhead items).

Net Loss

During the twelve months ended June 30, 1996, Ceapro held equity positions in both Canamino and Vexco and reported its proportionate share of losses of $2,993,000 for Canamino and $593,000 for Vexco on an equity accounting basis. Canamino commenced pre-commercial production in April 1996; however, sales were only at nominal levels and Ceapro had no direct revenue as a holding company. In the 1995 period, Ceapro, as a result of amalgamating with AMV, had a 56% interest in Canamino and had made advances to Vexco in anticipation of taking a 50% interest in that company. The proportionate share of a loss in Canamino of $1,037,000 was reported by Ceapro.

Liquidity and Capital Resources

Ceapro has relied on external financing to fund operating losses and strategic acquisitions. In the six months ended December 31, 1996, Ceapro raised $9,200,000 through the private placement of 3.2 million Common Shares. These funds were used in part to invest in Canamino ($4,500,000) and Vexco ($900,000). Ceapro completed two additional private placements, one in October 1995 of 415,000 Common Shares for gross proceeds of $933,000 and one in September 1996 of 140,000 Common Shares for gross proceeds of $350,000. These funds have provided for continued funding of Canamino's development and operations, development of the DSP and marketing of Lipsorex®, as well as the operations of Ceapro. In January 1997, Ceapro issued the Special Warrants to the Alberta Wheat Pool for proceeds of $4,000,000.

Working capital has improved from a deficit of $1,900,000 at June 30, 1995 to a working capital surplus on a pro forma consolidated basis at December 31, 1996 of $2,000,000. The improvement in working capital position is due largely to the proceeds of the sale of the Special Warrants.

Ceapro has been making principal repayments in respect of long term debt. Monthly payments of $75,000 commenced in March 1997 towards a balance of approximately $2,500,000 outstanding as at April 30, 1997 to a Canadian chartered bank. In addition, quarterly payments of $120,000 are made towards a balance of approximately $1,800,000 outstanding as at April 30, 1997 to Western Economic Diversification.

Ceapro's general and administrative costs amount to approximately $200,000 per month, comprised largely of salaries and benefits. The Company believes that the conclusion of non-recurring investment and restructuring activities and the elimination of redundancies arising from the acquisitions and restructuring will enable the Company to realize annual cost savings in this area. These savings are, however, expected to be offset by an increase in expenses relating to growth of Ceapro's infrastructure.

Management expects that cash flow from operations together with the proceeds of this offering and existing credit facilities will be sufficient to meet the Company's obligations during the next 12 months.

Future Considerations

As market opportunities develop for Ceapro's extracts, production capacity must be increased to respond efficiently to increased production demand. To increase production capacity, either at the existing facility or by constructing a new integrated fractionation facility, Ceapro will require additional capital. If sufficient demand for its products at sufficient margins develops, Ceapro intends to construct a new integrated fractionation facility. Preliminary engineering studies prepared by Stanley Engineering Associates have been completed on a proposed new integrated

fractionation plant capable of processing approximately 50,000 tonnes of oat groats annually. Based on the preliminary engineering studies, the cost of such a facility is estimated to be $75 million. A financing plan in respect of the costs associated with increasing production capacity, is expected to include a combination of debt, subordinated debt and/or a further equity financing. The sources of further financing will be dependent on market conditions and interest rates at the time.

DESCRIPTION OF SHARE CAPITAL

The Company is authorized to issue an unlimited number of common shares (''Common Shares''). As at the date hereof, 15,533,217 Common Shares were issued and outstanding (excluding 21,067 shares reserved for issuance).

The holders of Common Shares are entitled to one vote per share at all meetings of shareholders of Ceapro, except separate meetings of the holders of another class or series of shares. The Common Shares are entitled to dividends, when and if declared by the Board of Directors of Ceapro and to the distribution of assets of Ceapro in the event of the liquidation, dissolution or winding-up of Ceapro.

CAPITALIZATION

The following table sets forth the debt and capitalization of the Company as at December 31, 1996 and as at April 30, 1997, actual and as adjusted to give effect to the sale of ● Offered Shares and the exercise of the 800,000 Special Warrants and the application of the net proceeds therefrom.

Description	Authorized	Outstanding as at December 31, 1996	Pro forma Outstanding as at December 31, 1996	Outstanding as at March 31, 1997	Outstanding as at April 30, 1997, actual	Outstanding as at April 30, 1997, as adjusted
		(audited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Debt						
Bank indebtedness		$ 1,099,078	$ 1,099,078	$ 1,176,320	$ 894,000	$ 894,000
Long-term debt[1]		4,678,359	4,678,359	4,607,959	4,423,659	4,423,659
Canamino Class B preferred shares[2]	1,300,000 shares	3,000,000 (1,200,000 shares)	3,000,000 (1,200,000 shares)	3,000,000 (1,200,000 shares)	3,000,000 (1,200,000 shares)	—
Shareholders' equity						
Common Shares[3]	Unlimited	$ 18,850,155 (20,463,002 shares)	$ 45,474,230 (15,643,954 shares)	$ 44,207,249 (15,533,217 shares)	$ 44,207,249 (15,533,217 shares)	$ ● (● shares)
Special Warrants		—	—	4,000,000 (800,000 Warrants)	4,000,000 (800,000 Special Warrants)	—
Deficit		(10,882,588)	(11,358,683)	$(12,901,813)	(12,901,813)[4]	(12,901,813)[4]

Notes:

(1) See note 10 of the consolidated financial statements of Developments for details of long term debt.

(2) The Class B preferred shares are shares in the capital of Canamino and are classified as debt in accordance with generally accepted accounting principles. See ''History of the Company – Ceapro Developments Inc.''

(3) (a) See ''Description of Share Capital'' for a description of the material attributes of the shares.

(b) As at April 30, 1997, (i) options to purchase 1,703,619 Common Shares at exercise prices ranging from $1.665 to $6.750 per Common Share (see ''Option Plan''), (ii) warrants to purchase 236,111 Common Shares previously issued by Vexco (including warrants to purchase 125,000 Common Shares at a subscription price of $3.42 per share expiring June 18, 1997 and warrants to purchase 111,111 Common Shares at a subscription price of $2.70 per share expiring January 5, 1998), and (iii) the Special Warrants were outstanding. This figure does not include Common Shares issuable pursuant to these securities.

(c) Alberta Wheat Pool has invested $4.0 million in Ceapro through the purchase of 800,000 Special Warrants at $5.00 per Special Warrant. Each Special Warrant is exercisable to acquire for no further consideration a unit consisting of one Common Share and one-half of a Common Share purchase warrant, each whole share purchase warrant exercisable to purchase one Common Share at $5.00 per share. See ''Plan of Distribution – Special Warrants''.

(d) Under agreement dated September 23, 1996, MarketForce Communications Inc. (''MarketForce'') acts as agency of record for Ceapro representing Lipsorex® and the DSP. MarketForce is entitled to receive up to 55,555 Common Shares as follows:

i) 11,111 shares on completion of the Lipsorex® marketing plans and Calgary test market;

ii) 11,111 shares when English Canada wholesale distribution and pharmacy availability objectives are met;

iii) 11,111 shares when sales reach $100,000;

iv) 11,111 shares when sales reach $250,000;

v) 11,111 towards performance milestones on securing distribution of the DSP by a major pharmaceutical, diagnostic or other healthcare company.

The first three milestones have now been met and of the 33,333 shares earned to date, 16,667 shares have been issued.

(e) Under agreement dated October 10, 1995 between Dr. Thomas M.S. Wolever, DM, PhD (''Wolever'') and Ceapro, Wolever transferred to Ceapro his rights to the invention of a novel diagnostic screening tool which allows for the assessment of the metabolic status of humans and animals by administering an oral carbohydrate tolerance test by means of the DSP, in consideration for 55,556 Common Shares and options to purchase 66,667 Common Shares at $2.565 per share. The options are exercisable as follows:

i) 26,667 following the signing of a contract for the DSP by a major pharmaceutical company;

ii) 40,000 following the completion of two specified clinical trials.

(f) Under agreement dated December 21, 1995, the Company agreed to issue 11,112 Common Shares to Bunting Warburg Inc. as a finder's fee in connection with a private placement. The issuance of these shares is subject to regulatory approval, which has not yet been obtained.

(4) Deficit is at March 31, 1997.

PRICE RANGE AND TRADING VOLUMES OF COMMON SHARES

The Common Shares are traded in Canada on the ASE under the symbol ''CZO''. The following table sets forth the market price ranges and the aggregate volume of trading of the Common Shares on the ASE subsequent to the commencement of trading of the Common Shares on the ASE on January 17, 1997, following the amalgamation of Developments and Vexco to form Ceapro.

Period	High (Cdn $)	Low (Cdn $)	Volume
1997			
January	5.90	3.80	144,260
February	4.75	3.60	325,765
March	3.90	2.50	223,592
April	3.25	2.51	140,373
May 1 to 22	3.00	2.60	90,443

On May 22, 1997 the closing price per Common Share was $2.90 on the ASE. See ''Plan of Distribution''.

PRIOR SALES

During the preceding twelve months, the only sales by the Company of Common Shares or securities convertible into or carrying rights to acquire Common Shares other than the Special Warrants were as follows:

Date	Nature	Number of Purchasers	Number of Common Shares	Common Share Price ($)	$ Value of Sales
January 2, 1997	Shares for Service	1	100,000	2.50	250,000
February 27, 1997	Canamino Purchase	9	676,651	4.00	2,706,604

In addition, during the period April 1, 1996 to December 31, 1996, an aggregate of 4,623,264 Common Shares having a value of $14,383,595 were sold to purchasers by Developments at prices ranging from $2.50 to $6.00 per Common Share and an aggregate of 815,988 Common Shares having a value of $1,759,620 were sold to purchasers by Vexco at prices ranging from $1.67 to $3.24 per Common Share.

DIVIDEND POLICY

The Company has neither declared nor paid any dividends on its Common Shares and does not anticipate paying any dividends in the foreseeable future. The declaration and payment of dividends will be subject to the discretion of the Board of Directors and there can be no assurance that any dividends will be paid in the future. In determining whether to pay dividends (as well as the amount and timing thereof), the Board of Directors will consider a number of factors, including the Company's results of operations and financial condition.

DIRECTORS AND OFFICERS

The following table sets out the name, municipality of residence, position with Ceapro and principal occupations during the last five years of the directors and senior officers of Ceapro:

Name and Municipality of Residence	Position with Ceapro (and year first elected or appointed)	Principal Occupation
DIRECTORS		
WILLIAM D. GRACE, FCA[1] . . . Edmonton, Alberta	Director and Chairman of the Board (1996)	Corporate Director and Consultant since 1994; prior to March 1994, Managing Partner, Price Waterhouse (Edmonton) (chartered accountants)
ROBERT A. BINNENDYK . . . . . Edmonton, Alberta	Director, President and Chief Executive Officer (1996)	President & Chief Executive Officer, Ceapro from June 1, 1996; prior thereto, President, Labatt Western Canada (a brewery)
DONALD GAINOR[2] . . . . . Salt Spring Island, B.C.	Director (1994)	Retired; prior thereto, Senior Vice-President and founder of Gainor Medical, an international medical equipment company, since 1973
NEIL W.W. GILLIAT[2] . . . . . Edmonton, Alberta	Director (1995)	Chairman of Ceapro Developments Inc. prior to February 24, 1996; prior thereto, Director, Westcan Malting Ltd. (food processing company), 1990 to 1993
DR. DENNIS L. MODRY[1] . . . . . Edmonton, Alberta	Director (1995)	Director, Heart and Lung Transplantation Program and Cardiovascular Intensive Care Unit; Clinical Associate Professor at the University of Alberta; Chairman of Ceapro Developments Inc. from February 24, 1996 to September 3, 1996
ROBERT L. PHILLIPS[2] . . . . . Edmonton, Alberta	Director (1996)	President & Chief Executive Officer, Dreco Energy Services Ltd. (engineering and manufacturing company) since 1994; prior thereto, partner, Blake, Cassels & Graydon (law firm)
DR. G. WAYNE SCHNARR . . . . . Toronto, Ontario	Director (1997)	Vice-President, BioCatalyst Yorkton Inc. since 1997; Life Sciences Analyst, Yorkton Securities Inc. from 1994 to 1997; President and Chief Operating Officer, Pharma Patch plc from 1993 to 1994; prior thereto, Biotechnology and Pharmaceutical Analyst, Deacon BZW
DR. BRADLEY G. THOMPSON[1]. Calgary, Alberta	Director (1997)	President, Chief Executive Officer and Co-founder, SYNSORB Biotech Inc. since May 1994; prior thereto, Head, Program Development (from April 1994) and Head, Biotechnology Program (from 1990), Alberta Research Council
OFFICERS		
ROBERT A. BINNENDYK . . . . . Edmonton, Alberta	Director, President and Chief Executive Officer (1996)	President & Chief Executive Officer, Ceapro from June 1, 1996; prior thereto, President, Labatt Western Canada (a brewery)

Name and Municipality of Residence	Position with Ceapro (and year first elected or appointed)	Principal Occupation
DONALD A. MACLEAN ..... Edmonton, Alberta	Executive Vice-President and Chief Financial Officer (1996)	Executive Vice-President and Chief Financial Officer, Ceapro from October 18, 1996; prior thereto Partner, Coopers & Lybrand (chartered accountants)
CAROL A.L. PALMASON ..... Calgary, Alberta	Senior Vice-President, Pharmaceuticals (1997)	President, Vexco from June 1994 to December 1996; prior thereto, National and International Clinical Research Project Manager (Metabolics) at Miles Canada Inc., a subsidiary of Bayer A.G. Germany, from May 1986 to February 1994
DOUGLAS M. CLEMENT ..... Edmonton, Alberta	Vice-President, Consumer Health Products (1995)	Vice-President, Consumer Health Products, Ceapro; prior thereto Executive Vice-President, Business and Technology Development, Edmonton Economic Development
DR. KAREN G. LAPSLEY ..... Edmonton, Alberta	Vice-President, Functional Foods (1996)	Director, Guelph Foods Research Program to December 1996; prior thereto, Program Chair, Federal Department of Agriculture to November 1995; prior thereto, Acting Program Director, Central Experimental Farm to June 1993
DR. MARK J. REDMOND ..... Edmonton, Alberta	Vice-President, Scientific and Regulatory Affairs (1996)	Founder, President and Chief Executive Officer of Minerva from March 1994 to November 1996; prior thereto, Research Scientist, University of Saskatchewan from July 1988 to July 1993

Notes:

(1) Member, Audit Committee.

(2) Member, Corporate Governance and Compensation Committee.

(3) Dates prior to January 1, 1997 indicate the date of appointment as a director or officer of Developments or Vexco, as the case may be.

As at April 30, 1997, the directors and officers of Ceapro Inc., as a group, owned directly or indirectly 1,913,783 Common Shares or approximately 12% of the issued and outstanding Common Shares and options to acquire 1,198,450 Common Shares. See ''Option Plan''.

Management Team

Management of the Company includes the following individuals:

Robert A. Binnendyk. Mr. Binnendyk joined Ceapro on June 1, 1996 after 34 years with Labatt Brewing Company Limited, of which the last 23 years were in various senior management positions, including Vice President, Public Affairs; Vice President, Corporate Development and President, Western Canada Region. As President of the Western Canada Region, Mr. Binnendyk, through the leadership of various management teams, was responsible for achieving market share, cost efficiency and profit targets in Western Canada. As a member of Labatt's senior management, Mr. Binnendyk participated in setting the company's overall corporate strategic direction.

Donald A. MacLean. Mr. MacLean is a chartered accountant who joined Ceapro as Executive Vice-President and Chief Financial Officer in October 1996, after 20 years with Coopers & Lybrand, an international accounting firm. At Coopers & Lybrand, Mr. MacLean was a partner in the corporate reorganizations and insolvency practice.

Carol A. L. Palmason. Ms. Palmason joined Ceapro as a result of the amalgamation of Developments and Vexco, where Ms. Palmason had been President and Chief Executive Officer for three years. Ms. Palmason had previously held positions with Bayer Canada and Bayer A/G International, Planning and Metabolics, both divisions of

a multinational pharmaceutical company. Ms. Palmason brings over 20 years of experience in clinical drug development and business management to the Company.

Dr. Karen G. Lapsley. Dr. Lapsley joined Ceapro as Vice-President, Functional Foods after 13 years with Agriculture and Agri-Food Canada, where she was most recently Director and Chair of the Centre for Food and Animal Research Food Program and led five research programs on the safely, quality and economic value of food and animal feed products. Dr. Lapsley received her D.Sc. in Food Science from the ETH, Zurich in 1989.

Douglas M. Clement. Mr. Clement has extensive experience in senior market development positions, with over 15 years experience with Northern Telecom and Bell Canada, during which time he led major industry sector development and negotiated supply agreements valued at up to $100 million. Prior to joining Ceapro in September 1995, Mr. Clement was Assistant Vice-President, Alberta Region of Northern Telecom.

Dr. Mark J. Redmond. Dr. Redmond joined Ceapro in November 1996. Dr. Redmond founded Minerva in 1993, where he served as President and Chief Executive Officer until the acquisition of Minerva by Ceapro. Dr. Redmond has sixteen years experience in the human and veterinary health field, specializing in infectious diseases, vaccine and drug delivery and immunology. Dr. Redmond has eight years experience in intellectual property management and is an inventor of ten patents registered in the United States. Dr. Redmond received his Ph.D. in Medical Biochemistry from the University of Alberta in 1987.

Kenneth Hilsenteger. Mr. Hilsenteger is a chartered accountant who joined Ceapro in August 1996 from a multi-national oilfield manufacturer and well servicing business. Mr. Hilsenteger has extensive financial management experience in the areas of manufacturing, fabrication, distribution, wholesaling and construction.

Gregg Willie. Mr. Willie joined Canamino as Plant Manager on December 4, 1995. Prior to that time, he worked for three years as Quality Manager at Canbra Foods in Lethbridge, Alberta and six years as Process Engineer at the POS pilot plant in Saskatoon, Saskatchewan.

REMUNERATION OF DIRECTORS AND OFFICERS

Compensation of Directors

During the six month period ended December 31, 1996, the directors of Developments were paid cash remuneration of $51,867 and received a total of 15,334 Common Shares and four directors received options to purchase an aggregate of 200,000 Common Shares. During this same period, the directors of Vexco received options to purchase 40,000 Common Shares. See ‘‘Option Plan’’.

For the fiscal year 1997, the directors of Ceapro, excluding those directors who are members of management, are entitled to receive an annual director’s fee of $8,000 to be satisfied by the issuance of shares from treasury, at a per share price of the offering price hereunder for Common Shares issued in 1997. The chair of each committee of the Board of Directors receives $2,000 per annum, in each case to be paid in Common Shares on the foregoing basis. In addition, all directors are entitled to receive a per diem fee equal to $500 for all Board and committee meetings attended in person or by telephone. This fee, together with any Common Shares to be received by directors, will be paid on a quarterly basis. The compensation of directors is reviewed and established by the Board of Directors on an annual basis. On April 23, 1997, two new directors received options to purchase an aggregate of 100,000 Common Shares.

Compensation of Executive Officers

Ceapro has entered into employment agreements with its senior officers providing for mandatory retirement at 65 years of age, and also providing for termination without cause with severance payments ranging from one to two years.

The annual compensation payable under these employment contracts will be adjusted effective July 1, 1997 to provide for a portion of the compensation of all senior officers to be paid in Common Shares (subject to regulatory approval). The following table sets out the annual compensation provided for by the adjusted employment contracts and the actual annual compensation to be received by the senior officers in 1997.

Name and Principal Position	Annual Compensation Under Employment Contracts[1]		Annual Compensation to be Received in 1997	
	Cash ($)	Common Shares (#)	Cash ($)	Common Shares (#)
Robert A Binnedyk President and Chief Executive Officer	100,000	50,000	150,000	25,000
Donald MacLean Executive Vice-President and Chief Financial Officer	150,000	15,000	165,000	7,500
Carol Palmason[2] Senior Vice-President, Pharmaceutical Products	100,000	10,000	110,000	5,000
Dr. Mark Redmond Vice-President, Scientific and Regulatory Affairs	100,000	10,000	110,000	5,000
Douglas Clement Vice-President, Consumer Health Products	100,000	10,000	110,000	5,000
Dr. Karen Lapsley Vice-President, Functional Food Products	90,000	15,000	95,000	7,500

Notes:

(1) Stated on an annual basis.

(2) Ms. Palmason's contract has a term of four years and provides for a bonus at the end of that term equivalent to one year's salary.

The following information is provided pursuant to the requirements of the securities legislation of certain provinces of Canada.

Summary Compensation Table

The following table sets forth all compensation awarded to, earned by or paid for services rendered to the Company in all capacities during the last three fiscal periods by (i) the Company's chief executive officer and (ii) the Company's other executive officers who were serving as executive officers at the end of that period and whose total annual salary and bonus exceeded Cdn. $100,000 for the fiscal period ended December 31, 1996 (together, the ''Named Executive Officers''). No other executive officers of the Company received compensation in excess of $100,000 during such fiscal period.

Name and Principal Position	Fiscal Period Ending	Annual Compensation[6]		Long-Term Compensation Awards
		Salary ($)	Bonus ($)	Securities Under Options Granted (# shares)
Robert A. Binnendyk[1] President and Chief Executive Officer	December 31, 1996[4]	100,000		300,000
Douglas M. Clement[2]	December 31, 1996[4]	60,000		125,000
Vice-President, Consumer Health Products	June 30, 1996	120,000[5]		
Dr. Mark J. Redmond[3]	December 31, 1996[4]	60,000		125,000
Vice-President, Scientific and Regulatory Affairs	June 30, 1996	103,092	22,500	
	June 30, 1995	107,000	37,966	

Notes:

(1) Mr. Binnendyk commenced working with the Company in June 1996.

(2) Mr. Clement commenced working with the Company in September 1995.

(3) Dr. Redmond commenced working with the Company in March 1994.

(4) December 31, 1996 salary represents the amount received over the 6 month period from July 1, 1996 to December 31, 1996.

(5) June 30, 1996 salary was received in part in the form of 61,333 Common Shares, having a value of $84,000.

(6) The aggregate amount of the Named Executive Officers' other annual compensation, including perquisites on an aggregated basis, did not exceed 10% of the aggregate of their annual salary and bonus in the fiscal year.

Option Grants During the Most Recently Completed Financial Year

The following table sets forth the details of options to acquire Common Shares granted to the Named Executive Officers during the financial year ended December 31, 1996.

Name	Securities Under Options Granted (#)[1]	% of Total Options Granted to Employees in Financial Year	Exercise or Base Price ($/security)	Market Value of Securities Underlying Options on the Date of Grant ($/security)	Expiration Date
Robert A. Binnendyk	300,000	25.20	3.00	3.00	Sept. 3, 2001
Douglas M. Clement	125,000	10.50	3.00	3.00	Nov. 5, 2001
Mark J. Redmond	125,000	10.50	3.00	3.00	Nov. 5, 2001

Note:

(1) All securities under option are Common Shares. The options vest immediately on the date of grant and have a term of 5 years. See ''Option Plan''.

Aggregated Option Exercises During the Most Recently Completed Financial Year and Financial Year-End Option Values

The following table sets forth details of all options granted by the Company to the Named Executive Officers which were exercised in the most recently completed financial year, as well as details of year-end balances and values (exercisable/unexercisable):

Name	Securities Acquired on Exercise (#)	Aggregate Value Realized ($)	Unexercised Options at Financial Year-End Exercisable/Unexercisable	Value of Unexercised in-the-Money Options at Financial Year-End[1] Exercisable/Unexercisable ($)
Robert A. Binnendyk	N/A	N/A	75,000 / 225,000[2]	195,000 / 585,000[2]
Douglas M. Clement	N/A	N/A	31,250 / 93,750[2]	81,250 / 243,750[2]
Mark J. Redmond	15,375	46,125	31,250 / 93,750[2]	81,250 / 243,750[2]

Notes:

(1) The Common Shares did not commence trading until following the effective date of the amalgamation on January 1, 1997. Accordingly, these figures are based on a closing stock price of $5.60 per Common Share on January 17, 1997, the first day the Common Shares were traded after the amalgamation.

(2) Although these shares are exercisable under the Company's option plan, Messrs. Binnendyk, Clement and Redmond have contractually waived their rights to exercise 75% of their unexercised options for two years from the date of grant. Accordingly, 225,000 options having a value of $585,000 are currently unexercisable by Mr. Binnendyk and 93,750 options having a value of $243,750 are currently unexercisable by each of Messrs. Clement and Redmond.

OPTION PLAN

In connection with the amalgamation, the Board of Directors of Ceapro adopted and the shareholders of Ceapro approved the existing Vexco stock option plan as the stock option plan of Ceapro (the ''Option Plan'').

Under the terms of the Option Plan, the number of Common Shares that may be issued pursuant to the exercise of options shall not exceed 10% of the Common Shares issued and outstanding at any time. The exercise price of any option granted under the plan is to be determined by the Board of Directors of the Company, but shall not be lower than the closing price of the Common Shares on the ASE on the day prior to the date on which written notice in respect of the option grant is received by the ASE, less the applicable discount. A maximum discount of 10% is permitted in respect of shares trading over $5.00, 15% in respect of shares trading between $2.01 to $5.00 and 18% in respect of shares trading between $1.01 to $2.00. No participant in the Option Plan shall be granted an option which exceeds 5% of the issued and outstanding Common Shares. Participants in the Option Plan may be directors, officers, employees or consultants of Ceapro, or of an affiliate company. The term of any option granted under the Option Plan shall be five years provided that this term is reduced in the event of the death of a participant or cessation with Ceapro as a director, officer, employee or consultant. Options vest immediately upon granting and may be exercised in whole or in part at any time and from time to time during the five year option period.

As at April 30, 1997, the Company had issued outstanding options pursuant to which the optionees were able to acquire an aggregate of 1,703,619 Common Shares, allocated as follows:

Group (number of persons)	Number of Common Shares	Date of Grant	Exercise Price	Expiry Date
Directors (6)	11,111	October 26, 1995	$2.250	October 26, 2000
	2,222	April 9, 1996	3.690	April 9, 2001
	2,222	July 31, 1996	6.750	July 31, 2001
	100,000	September 3, 1996	3.000	September 3, 2001
	100,000	April 23, 1997	3.000	April 23, 2002
Executive Officers (6)	23,447	January 24, 1994	3.240	March 16, 1999
	2,222	April 9, 1996	3.690	April 9, 2001
	55,556	April 19, 1996	4.275	April 19, 2001
	111,111	April 23, 1996	4.815	April 23, 2001
	2,222	July 31, 1996	6.750	July 31, 2001
	625,000	September 3, 1996	3.000	September 3, 2001
	250,000	November 5, 1996	3.000	November 5, 2001
Employees (2)	8,889	October 26, 1995	2.250	October 26, 2000
	11,111	November 4, 1996	5.895	November 4, 2001
	30,000	November 5, 1996	3.000	November 5, 2001
Former Directors (6)[1]	11,111	September 30, 1992	2.025	September 30, 1997
	2,222	October 15, 1993	5.535	October 15, 1998
	13,334	September 1, 1994	2.025	September 1, 1999
	33,334	May 8, 1995	1.665	May 8, 2000
	28,889	October 26, 1995	2.250	October 26, 2000
	13,334	April 9, 1996	3.690	April 9, 2001
	33,334	April 12, 1996	3.240	April 12, 2001
	2,223	July 31, 1996	6.750	July 31, 2001
	100,000	September 3, 1996	3.000	September 3, 2001
	33,334	September 20, 1996	6.210	September 20, 2001
Others (4)				
Paul Esquivel[2]	5,556	October 25, 1993	2.250	October 25, 1998
Kim Penwarden[3]	2,945	May 8, 1995	1.665	May 8, 2000
Thomas Wolever[4]	66,667	April 16, 1996	2.565	April 16, 2001
Swancorp Equities[5]	11,111	March 8, 1996	2.700	March 8, 2001
Swancorp Equities[5]	11,112	March 8, 1996	4.500	March 8, 2001
Total	1,703,619			

Notes:

(1) Jerry F. Bigam, Peter J. Gross, Daniel Koyich, Dr. Lutz Mueller, Kenneth F. Pilip and Paul Wacko
(2) Consultant to the Company
(3) Former employee of Ceapro
(4) Consultant to the Company
(5) Investment relations firm

In connection with the resignation of Messrs. Bigam, Gross, Koyich, Mueller, Pilip and Wacko (the ''Former Directors'') from the Board of Directors of the Company effective April 11, 1997, the ASE has consented to the extension of the exercise period of options to acquire an aggregate of 257,780 Common Shares held by the Former Directors to April 11, 1998.

INDEBTEDNESS OF DIRECTORS AND OFFICERS

None of the directors and executive officers of the Company nor any of their associates or affiliates are now or have been indebted to the Company during the last completed financial year, except as follows:

Table of Indebtedness of Directors, Executive Officers and Senior Officers

Name and Principal Position	Involvement of Ceapro	Largest Amount Outstanding During 1996	Amount Outstanding as at April 30, 1997
DONALD A. MACLEAN[1] ..... Executive Vice-President and Chief Financial Officer	Lender	$250,000	$250,000
CAROL A.L. PALMASON[2] ..... Senior Vice-President, Pharmaceuticals	Lender	$ 46,447	$ 64,447

Notes:

(1) This amount represents a non-interest bearing loan advanced October 15, 1996 pursuant to the contract of employment between Ceapro and Mr. MacLean relating to transitional financial obligations associated with Mr. MacLean leaving a public accountancy partnership to join Ceapro. This loan is repayable at any time prior to October 15, 2001.

(2) This amount represents a non-interest bearing loan, the majority of which represents personal advances against a $100,000 payment by Ceapro which became due following the transfer of patent rights to Ceapro by a company controlled by Ms. Palmason.

PRINCIPAL SHAREHOLDERS

As at the date hereof, no one person beneficially owns, directly or indirectly, or exercises control or direction over, more than 10% of the outstanding Common Shares.

As at the date hereof, the directors and officers of Ceapro as a group beneficially own, directly or indirectly, or exercise control or direction over approximately 12% of the issued and outstanding Common Shares before this offering and approximately ● % of such shares after giving effect to this offering (not including the exercise of the Over-Allotment Option).

ESCROWED SECURITIES

The table below shows the names of the parties whose Common Shares are subject to escrow in accordance with the policies of the ASE and the number and percentage of Common Shares subject to escrow as at April 30, 1997.

Name	Number of Common Shares held in Escrow	Percentage of Outstanding Common Shares
Carol Palmason	244,445[1]	1.57%
Patrick A. Beauchamp, William D. Cunningham, M.A. Jones, Dr. James A. Rogers, and Polyflo Chemicals Ltd. (''Beauchamp Group'')	849,778[2]	5.47%
E. Lynne Bigam, Jerry F. Bigam, Neil W. Gilliat, Dr. Nam F. Han and Kenneth F. Pilip (''Founder Group'')	3,237,060[3]	20.84%
Dr. Dennis L. Modry and D.L.M. Investments Inc.	457,083[4]	2.94%

Notes:

(1) Pursuant to an escrow agreement dated for reference July 5, 1995 among 654840 Alberta Ltd., a company controlled by Carol Palmason, the former President and Chief Executive Officer of Vexco, Montreal Trust Company of Canada and the Company, the ASE will consent to the release of such shares from escrow on the following basis: 122,223 Ceapro Common Shares to be released upon completion of the clinical trials in respect of the DSP; 122,222 to be released upon the formation of a strategic alliance between Ceapro and a third party having access to a nationally recognized distribution system for healthcare products whereby such third party agrees to provide Ceapro with access to such distribution system with respect to the DSP; and 0.62 Common Shares to be released for every $1.00 of operating profit earned by Ceapro. These shares held in escrow will be cancelled on January 5, 2001 if the escrow conditions have not been met by that date.

(2) Pursuant to an escrow agreement dated July 29, 1994 among the Beauchamp Group, Montreal Trust Company of Canada and the Company, 0.22 of a Common Share will be released from escrow for every $0.25 of cash flow generated from the operating profit (as defined in the escrow agreement) in respect of the Lipsorex® products (the maximum releasable from escrow for the years 1996, 1997 and 1998 being 173,511 Common Shares per annum and 329,245 Common Shares in 1999). Agreement in principle has been reached with the Beauchamp Group, subject to ASE approval, for cancellation of the royalty payable to Polyflo in exchange for amendments to the above escrow terms to provide for a full release of all shares on predetermined dates with specific numbers of shares being released over a four year period. As of the date hereof, ASE approval had not been received by Ceapro.

(3) Pursuant to an escrow agreement dated January 2, 1997 among each member of the Founder Group, Montreal Trust Company of Canada and the Company, the Common Shares of the Founder Group are subject to escrow provisions which provided for the release of 10% of those shares on April 17, 1997, with a further 20% to be released following a public offering of shares or other form of financing raising a minimum aggregate amount of $15,000,000 by Ceapro; a further 35% to be released upon the later to occur of Ceapro generating cumulative revenues of $5,000,000 or January 17, 1998; and the remaining 35% to be released upon the later to occur of Ceapro generating cumulative revenues of $10,000,000 and January 17, 1999.

(4) Pursuant to an escrow agreement dated January 3, 1997 among Dennis L. Modry, D.L.M. Investments Inc., Montreal Trust Company of Canada and the Company, the Common Shares held by Dennis L. Modry and D.L.M. Investments Inc. are subject to escrow provisions which provide for the release of 25% of those shares on January 10, 1997; a further 15% to be released following a public offering of shares or other form of financing by Ceapro in the minimum aggregate amount of $15,000,000; a further 30% to be released upon the later to occur of Ceapro generating cumulative revenues of $5,000,000 or January 17, 1998; and the remaining 30% to be released upon the later to occur of Ceapro generating cumulative revenues of $10,000,000 and January 17, 1999.

PLAN OF DISTRIBUTION

Offered Shares

Pursuant to an agreement (the ''Underwriting Agreement'') dated ● , 1997 among the Company, the Selling Shareholders (as defined below) and the Underwriters, the Company has agreed to issue and sell the Offered Shares and the Underwriters have severally agreed to purchase on ● , 1997 or on such other date as may be agreed upon but in any event not later than ● , 1997 (the ''Closing Date''), subject to the terms and conditions stated in the Underwriting Agreement, all of such Offered Shares at a price of $ ● per Common Share payable in cash to the Company against delivery of certificates representing such shares. The offering price of the Offered Shares was determined by negotiation between the Company and the Underwriters.

The Underwriting Agreement provides that the Company will pay the Underwriters a fee of $ ● per Offered Share in consideration for their services in connection with the offering of the Offered Shares. As additional consideration for the services rendered by the Underwriters, the Company has agreed to grant to the Underwriters the Compensation Option, exercisable at any time on or before ● , 1999, to acquire up to ● Common Shares at an exercise price of $ ● per Common Share. Expenses relating to the offering of the Offered Shares, including the preparation of this Prospectus, are estimated at $600,000 and will be paid out of the general funds of the Company.

The obligations of the Underwriters under the Underwriting Agreement are several and may be terminated at their discretion based on their assessment of the state of the financial markets and may also be terminated upon the occurrence of certain stated events. The Underwriters are, however, obligated to take up and pay for all the Offered Shares if any of the Offered Shares are purchased under the Underwriting Agreement.

The Company and certain of its shareholders, E. Lynne Bigam, Jerry Bigam, Neil Gilliat, Dr. Nam Han, Dr. Dennis Modry, D.L.M. Investments Inc. and Kenneth Pilip, (the ''Selling Shareholders''), have granted to the Underwriters the Over-Allotment Option to purchase up to an aggregate of ● additional Common Shares, which additional Common Shares are qualified for sale hereunder. Each of the Selling Shareholders will be entitled to sell to the Underwriters one-twelfth of the total number of Common Shares subject to the Over-Allotment Option. To the extent that any Selling Shareholder does not sell such shares, the remaining Selling Shareholders will be entitled to make up the shortfall in equal proportions. To the extent that the Selling Shareholders determine not to sell Common Shares on exercise of the Over-Allotment Option, such Common Shares will be sold to the Underwriters by the Company. The Underwriters may exercise the Over-Allotment Option in whole or in part at any time on or before the close of business on the 60th day following the closing of this offering to cover over-allotments, if any, and for market stabilization purposes. To the extent that the Over-Allotment Option is exercised, the additional Common Shares will be purchased by the Underwriters at the offering price hereunder and the Underwriters will be entitled to a fee of $ ● per Common Share in respect of each share purchased. In addition, if any of the Selling Shareholders sell Common Shares pursuant to the exercise of the Over-Allotment Option, the expenses of the offering of the Offered Shares and the sale of Common Shares pursuant to the Over-Allotment Option will be borne by the Company and such Selling Shareholders in proportion to the gross proceeds received.

Pursuant to policy statements of the Ontario Securities Commission and the Commission des valeurs mobilières du Québec, the Underwriters may not, throughout the period of distribution, bid for or purchase Common Shares. The

foregoing restriction is subject to certain exceptions, on the condition that the bid or purchase not be engaged in for the purpose of creating actual or apparent active trading in, or raising the price of, the Common Shares. Such exceptions include a bid or purchase permitted under the by-laws and rules of The Toronto Stock Exchange relating to market stabilization and passive market making activities and a bid or purchase made for and on behalf of a customer where the order was not solicited during the period of distribution. Pursuant to the first-mentioned exception and applicable law, in connection with this offering, the Underwriters may over-allot or effect transactions which stabilize or maintain the market price of the Common Shares at levels other than those which might otherwise prevail on the open market. Such transactions, if commenced, may be discontinued at any time.

The Common Shares have not been and will not be registered under the United States *Securities Act of 1933*, as amended (the ''U.S. Securities Act''), or the securities laws of any state of the United States, and may not be offered or sold in the United States or to or for the account or benefit of a U.S. Person (as defined in Regulation S under the U.S. Securities Act) unless an exemption from such registration is available. Each Underwriter has agreed that, except as permitted in the preceding sentence, it will not offer or sell such Common Shares (i) as part of such Underwriter's distribution at any time, or (ii) otherwise until 40 days after the commencement of the offering, within the United States or to or for the account or benefit of U.S. Persons, and it will send to each dealer to which it sells Common Shares during such 40 day period a confirmation or other notice setting forth such restrictions.

The Company has agreed not to offer to sell, contract to sell or otherwise dispose of, directly or indirectly, any additional Common Shares or any securities exercisable for or convertible into Common Shares other than options granted pursuant to the Option Plan, the exercise of the Special Warrants or the Warrants, or options granted under the Option Plan or warrants of the Company outstanding on the date hereof, for a period of 180 days after the closing of the offering of the Offered Shares, without the prior written consent of the Underwriters.

Each Selling Shareholder (excluding, in the case of E. Lynne Bigam, Common Shares obtained through the exercise of options received while a director of Vexco, in the case of Dr. Nam Han, Common Shares received in consideration for the sale of shares of Canamino and in the case of Dr. Dennis Modry and D.L.M. Investments Inc., Common Shares not subject to escrow at April 30, 1997) has agreed not to offer to sell, contract to sell or otherwise dispose of, directly or indirectly, any Common Shares or any securities exercisable for or convertible into Common Shares for a period beginning on the date of completion of the offering (the ''Closing Date'') and ending on the earlier of: (i) the date that is 60 days after the Closing Date; and (ii) the date on which the weighted average trading price of the Common Shares on the stock exchange on which the greatest volume of trading in the Common Shares has occurred in the period of twenty trading days immediately preceding such date is at least $8.00, in each case without the prior written consent of Yorkton Securities Inc.

Special Warrants

Pursuant to a subscription agreement (the ''Subscription Agreement'') dated January 31, 1997 between the Company and the Subscriber, the Alberta Wheat Pool, the Company issued and sold 800,000 Special Warrants at a price of $5.00 per Special Warrant. The Company concurrently entered into a long term supply agreement with the Alberta Wheat Pool. See ''Business of the Company – Suppliers''. Each Special Warrant entitles the Subscriber to acquire one Unit without further payment of any consideration in addition to the issue price for such Special Warrants. Each Unit is comprised of one Common Share and one-half of a Warrant. Each whole Warrant entitles the holder thereof to acquire one Common Share at the price of $5.00, exercisable for a period of 365 days following the day upon which a receipt for this Prospectus is obtained from the Alberta Securities Commission. The number of Common Shares issuable on exercise of the Warrants and the Warrant exercise price are subject to anti-dilution adjustment upon the occurrence of certain events. The gross proceeds of the issue and sale of the Special Warrants was $4,000,000, which has been paid to the Company. All expenses relating to the offering of the Special Warrants were paid out of the general funds of the Company. No commission was payable in respect of the issuance of the Special Warrants.

Pursuant to the Subscription Agreement, the Company has agreed to obtain a receipt for this Prospectus prior to May 15, 1997, or such later date as may be agreed to by the Company and Yorkton, which in any event shall not be later than May 31, 1997. The Special Warrants may be exercised at any time prior to the Special Warrant Expiry Time. Any and all Special Warrants that have not been exercised prior to the Special Warrant Expiry Time will be deemed to have been exercised immediately prior to the Special Warrant Expiry Time without any further action on the part of the Subscriber.

If any Special Warrants are exercised prior to the issuance of a receipt for this Prospectus, the Common Shares and Warrants comprising the Units issued upon such exercise are subject to statutory hold periods and resale restrictions under applicable securities legislation.

USE OF PROCEEDS

The net proceeds from the offering of the Offered Shares and the Special Warrants is estimated to be an aggregate of $ ● , after deducting the cash component of the Underwriters' fee of $ ● and the expenses of this Prospectus, estimated at $600,000. The Company intends to use the net proceeds approximately as follows:

(i) $6 million to fund process, product and market development costs, including:

$4.5 million to fund research on oat fractionation process modifications, new extracts and new finished products;

$1.0 million for completion of testing and commercialization of the DSP; and

$0.5 million for the development of markets and the formation of strategic alliances for new and existing extracts and finished products; and

(ii) the balance of the net proceeds will be used for working capital.

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

None of the directors and senior officers of the Company, any person who owns more than 10% of any class of voting shares of the Company nor any associate or affiliate of any of them had or has any material interest in any transaction within the preceding three years or in any proposed transaction which in either case has materially affected or will materially affect the Company, other than the following and as disclosed elsewhere in this Prospectus:

1. DLM Investments Inc., a company controlled by Dennis L. Modry, purchased from a Canadian chartered bank a loan in the amount of $1,000,000 outstanding from Ceapro. This loan was repaid in full on September 3, 1996 by way of conversion into Common Shares and cash repayment.

2. Ceapro paid a fee of 100,000 Common Shares to Dennis L. Modry, a principal shareholder and director of Ceapro, on January 2, 1997 for consulting services provided in 1996.

3. By agreement dated July 5, 1995 and subsequently amended as of the same effective date, between Ceapro and Carol Palmason (''Palmason''), Palmason transferred to Ceapro her rights to the invention of DSP in consideration for the issue of 244,445 Common Shares, options to acquire 111,112 Common Shares at $4.82 per share and a cash payment of $100,000. The cash payment has not been made as of the date of this Prospectus. The Common Shares issued to Palmason are held in escrow and the ASE will consent to the release of such shares from escrow on a prescribed basis. See ''Escrowed Securities''.

RISK FACTORS

In addition to other information contained in this Prospectus, prospective investors should carefully consider the following risk factors in evaluating the Company and its business before purchasing the Common Shares offered hereby.

Lack of Earnings and History of Operating Losses

Neither Ceapro nor its predecessor companies have earnings history and there have been minimal revenues. Ceapro and its predecessors have experienced significant operating losses in each fiscal year since operations began and Ceapro expects to incur substantial operating losses for the foreseeable future. The development, commercialization and marketing of the Company's products for the pharmaceutical and functional foods markets will require the application of considerable technical and financial resources by the Company, while revenues generated by such products, if successfully developed and marketed, may not be realized for several years. No assurance can be given that the Company will be able to achieve or sustain profitability.

Future Capital Requirements

Ceapro will require additional capital to increase production capacity either at Ceapro's existing facility or by constructing a new integrated fractionation facility. Preliminary engineering studies have been completed on a proposed new integrated fractionation plant capable of processing approximately 50,000 tonnes of oat groats annually. Based on the preliminary engineering studies, the cost of such a facility is estimated to be $75 million. There is no assurance that additional capital or other types of financing will be available when needed or that, if available, the terms of such financing will be favourable to the Company. If Ceapro is unable to secure the foregoing additional capital through financing from equity investors, equipment suppliers, lenders or other sources, Ceapro may not possess the financial resources to carry out its business plan.

Dependence on Oat Fractionation Technology

Substantially all of the Company's products are based on the oat fractionation technology. The Company sub-licenses the primary fractionation technology from NVI. This sub-license is subject to a number of conditions, including the right of NVI to terminate the sub-license in the event certain payment obligations or production objectives are not met and the right of NVI to convert the sub-license into a non-exclusive license in the event minimum payment thresholds are not exceeded for specified time periods after January 1, 1999. See ''Business of the Company – Intellectual Property''. Loss of the sub-license would materially adversely affect the Company's business, financial condition and the results of operations.

No assurance can be given that competitors will not circumvent Ceapro's licensed or proprietary intellectual property rights. Other companies may develop fractionation processes that are very similar to the processes used by Ceapro and may seek and obtain patents therefor. The ability to circumvent Ceapro's licensed or proprietary intellectual property rights may enable competitors to compete directly with Ceapro.

Limited Production Facilities

The Company currently produces oat-based extracts at its facility in Saskatoon, Saskatchewan. This facility is capable of processing up to 15,000 tonnes of oat groats per year. Over the past five months, the plant has processed an average of 171 tonnes of oat groats per month. If market demand meets management's expectations, current production facilities will not be able to produce certain extracts in sufficient quantities to permit the production of many of the products currently being developed by Ceapro. Further testing on process modifications is being conducted to improve productivity, enhance capacity utilization and improve quality. As well, due to regulatory requirements, Ceapro's fractionation plant operates using methanol, a denaturant, in the wet-milling process. As a result, the fractionation plant is not currently capable of producing certain extracts for use in food products. Ceapro is currently completing regulatory requirements for the use of an alternative denaturant which will enable it to produce limited quantities of food grade extracts for product development and efficacy testing purposes.

If sufficient demand for its products at sufficient margin develops, Ceapro intends to construct a new integrated fractionation facility. If a new integrated fractionation facility with the capacity to process not less than 50,000 tonnes of oat groats annually is not capable of commercial production by January 1, 2000, NVI has the right to terminate the sub-licence for the primary oat fractionation technology. There can be no assurance that the Company will be able to demonstrate the economic feasibility of such a facility, that it will be successfully completed by the Company or that, before or after the completion of the new facility, the Company will be able to manufacture current and anticipated products successfully or in a cost-effective manner.

No Guarantee of Development Success or Market Acceptance

Most of Ceapro's products are still in development. Only a small number of products are in the early stages of commercialization and none of its products have demonstrated large-scale sales levels. The successful development and commercialization of new products is an expensive and time-consuming process and there can be no assurance that any of Ceapro's products will be profitable. In addition, there can be no assurance that any such products will meet applicable regulatory standards or be capable of being produced in commercial quantities at acceptable costs. Ceapro's future success will also depend on market acceptance of its products. There can be no assurance that any of

the Company's products in development or recently launched products will achieve market acceptance or generate revenues. The ability of the Company's products to generate revenue will depend on a number of factors, including the receipt of regulatory approvals, the establishment and demonstration of efficacy data and the degree of market acceptance.

Government Regulation

Securing regulatory approval for the marketing of certain of Ceapro's products, and in particular proposed pharmaceuticals, from the HPB in Canada and the FDA in the United States (and similar regulatory agencies in other countries) can be a long and expensive process which can delay or prevent product commercialization. There can be no assurance that Ceapro will be able, for financial reasons or otherwise, to comply with applicable governmental laws and regulations required to enable Ceapro to market its proposed products.

Although health claims with respect to certain food products can be made in each of the United States and Japan, health regulations in Canada do not currently permit such claims to be made. There can be no assurance that health regulations in Canada will be changed to permit health claims with respect to foods. There can also be no assurance that regulatory approval will be obtained in other jurisdictions for health claims relating to Ceapro's products. The inability of Ceapro to make health claims with respect to its functional food products would adversely affect the marketing of such products and Ceapro's ability to receive product royalty revenue from such products. See ''Business of the Company – Regulation''.

No Guarantee of Marketing Success

Ceapro does not have experience in marketing or distribution of many of its proposed products. Moreover, Ceapro does not have the financial or other resources to undertake extensive marketing and advertising activities and may determine that third parties should be involved in manufacturing. Ceapro intends to create strategic alliances for the production of finished products and the marketing and sales of products. There can be no assurance that Ceapro will be able to enter into such arrangements on terms acceptable to it, or at all. If the Company should encounter delays or difficulties in establishing relationships with qualified manufacturers and distributors for its finished products, market introduction and subsequent sales of such products could be adversely affected.

Ceapro's commercialization strategy depends in part upon entering into license agreements with major cosmetics, pharmaceutical, veterinary (including animal healthcare and grooming), healthcare and food companies. Ceapro will be, to a certain extent, dependent upon licensees to generate revenue from the licensing of Ceapro's products. There can be no assurance that the Company will be able to enter into such licensing agreements or that it will be able to do so on competitive terms and conditions.

Competition

The markets for some of Ceapro's products are competitive and therefore Ceapro's products will compete with those of a number of other corporations, many of whom have financial, technical and other resources significantly greater than that of Ceapro. In addition, Ceapro's products may compete indirectly with alternative technologies and products. As the markets for Ceapro's products and services expand, additional competition may emerge and competitors may commit more resources to products which directly compete with Ceapro's products. See ''Business of the Company – Competition''.

Successful Management of Growth and Consolidation

The Company's recent acquisitions have resulted in management operating a company formed through the combination and integration of management, personnel, technologies and products from previously separate entities. The Company has taken certain steps to consolidate its operations to realize on synergies from such acquisitions. Many potential synergies and benefits from these acquisitions have yet to be realized. The failure of the Company to fully realize the potential benefits of these acquisitions and any future acquisitions would likely have a negative effect on the Company's financial position and upon its future profitability.

Patents and Technologies

Ceapro has certain intellectual property rights with respect to its technology. There is a potential for infringement of Ceapro's proprietary technology. Ceapro also relies on unpatented trade secrets, improvements, know-how and continuing technological innovation to develop and maintain its competitive position, which it seeks to protect, in part, by confidentiality agreements with its corporate partners, collaborators, employees and consultants. There can be no assurance that these agreements will not be breached, that Ceapro will have adequate remedies for any breach, or that Ceapro's trade secrets will not otherwise become known or independently discovered by competitors.

Ceapro's success will depend in part on its ability to obtain, and enforce the rights to, intellectual property. No assurance can be given that patents will issue from pending applications or that claims now or in the future, if any, allowed under issued patents will be sufficiently broad to protect Ceapro's technology. In addition, no assurance can be given that any patents issued or licensed by Ceapro will not be challenged, invalidated, infringed or circumvented, or that the rights granted thereunder will provide competitive advantages to Ceapro. The commercial success of Ceapro will also depend in part on Ceapro not infringing intellectual property rights of others and not breaching licenses granted to Ceapro.

Key Personnel and Collaborators

Ceapro's ability to retain and attract highly qualified technical, management and sales and marketing personnel, as well as its ability to establish and maintain relations with research institutions, will have a significant affect on its ability to become and to remain competitive. There can be no assurance that Ceapro will be able to attract and retain such personnel or establish and maintain such collaborative relations. The loss of the services of such persons, or the inability to attract persons of equal ability, could have a material adverse effect on Ceapro's business operations and prospects. See ''Directors and Officers'' and ''Business of the Company – Research and Development''.

Product Liability and Insurance

Ceapro may be exposed to potential product liability claims by consumers in connection with use of its products. Ceapro expects that as it expands it will require increased product liability insurance. There can be no assurance that it will be able to obtain appropriate levels of product liability insurance prior to any use of its biopharmaceutical products in clinical trials. An inability to obtain insurance on economically feasible terms or to otherwise protect against potential product liability claims could inhibit or prevent the commercialization of products developed by Ceapro. In the event of a successful suit against Ceapro, insufficient insurance coverage could have a material adverse effect on the business, financial condition and future prospects of Ceapro.

Volatile Share Price

The market price for securities of biotechnology or similar companies has been historically volatile. Future announcements concerning Ceapro or its competitors, including the results of testing, technological innovations or commercial products, government regulations, developments concerning proprietary rights, litigation and public concern as to the safety of Ceapro's products, may have a significant impact on the market price of Ceapro's common shares.

Exchange Rate Risks

The majority of the Company's products will be sold in U.S. dollars and Japanese yen, while the majority of its raw materials will be sourced in Canadian funds. To the extent that the Canadian dollar appreciates in relation to the U.S. dollar or Japanese yen, the Company will be exposed to currency risks which may lead to erosion of its gross profit margins. Competitive market forces may prohibit the Company from immediately increasing prices to address any such margin erosion. The Company has not presently adopted a currency exchange hedging program.

Agreement with Saskatchewan Government Growth Fund Ltd.

In the event that Ceapro does not pay the quarterly and annual dividends on the preference shares of Canamino held by SGGF for a period greater than 90 days or redeem the preference shares as required on October 27, 1997 and October 27, 1998, SGGF has a right to exercise voting control equal to 51% of the voting entitlement applicable to Canamino's shares until such time as the default is remedied. As well, if any preference shares or dividend amounts owed to SGGF remain outstanding after October 27, 1998, SGGF will have the right to convert such shares or amounts into common shares of Canamino. Canamino holds the license with NVI for the primary oat fractionation technology and the title to Ceapro's existing fractionation plant in Saskatoon. Loss of control of Canamino would materially adversely affect Ceapro's business, financial condition and results of operations. Pursuant to a shareholder contribution agreement in respect of Canamino, the Company may also be required to advance shareholder loans to Canamino to service loans and prevent covenant breaches by Canamino given in favour of a Canadian chartered bank. See ''History of the Company''.

DILUTION

The following table sets out the amount by which the price per Special Warrant of $5.00 exceeds the consolidated net tangible book value per Common Share as at December 31, 1996 after giving effect to the offering and exercise of the Special Warrants but without giving effect to the offering of the Offered Shares:

Offering price per Common Share	$5.00
Consolidated net tangible book value per Common Share before giving effect to the Special Warrant offering	$0.09
Increase per Common Share attributable to the Special Warrant offering	$0.24
Pro forma consolidated net tangible book value per Common Share attributable to the Special Warrant offering	$0.33
Dilution per Common Share	$4.67
Dilution as a percentage of offering price	93.32%

The following table sets out the amount by which the price per Offered Share of $ ● exceeds the consolidated net tangible book value per Common Share at December 31, 1996 after giving effect to both the offering of the Offered Shares and the offering and exercise of the Special Warrants (collectively the ''Equity Offerings''):

Offering price per Common Share	$ ●
Consolidated net tangible book value per Common Share before giving effect to the Equity Offerings	$ 0.33
Increase per Common Share attributable to the Equity Offerings	$ ●
Pro forma consolidated net tangible book value per Common Share attributable to the Equity Offerings	$ ●
Dilution per Common Share	$ ●
Dilution as a percentage of offering price	● %

The foregoing computations assume no exercise of the Warrants, the Over-Allotment Option, the Compensation Option or any options granted pursuant to the Option Plan or outstanding warrants. See ''Plan of Distribution'' and ''Option Plan''.

LEGAL PROCEEDINGS

An action was commenced in the Court of Queen's Bench of Alberta by Lockerbie Ventures Ltd. (''Lockerbie'') on July 7, 1994 alleging that it entered into a contract with Canamino to provide certain planning, project management and procurement of process equipment services. Lockerbie alleges that it has not been paid pursuant to this contract and therefore claims judgment in the sum of $329,946, interest thereon at the prime rate of a Canadian chartered bank plus 2% per annum and further damages of $109,500. Canamino has filed a defence and counterclaim, it being Canamino's position that the services to be provided under the contract were not performed satisfactorily, that certain payments were, in fact, made to Lockerbie and that fraudulent, negligent or innocent misrepresentations were made by Lockerbie. Canamino's counterclaim is in the amount of $1,791,607 and it is the opinion of counsel to the Company that any counterclaim award will exceed any claims awarded to Lockerbie.

MATERIAL CONTRACTS

The Company has not entered into any contracts material to investors in the Common Shares during the previous two years, other than contracts in the ordinary course of business, except:

1. Underwriting Agreement dated ● , 1997 between the Company, the Selling Shareholders and the Underwriters pursuant to which the Company has agreed to sell and the Underwriters have agreed to purchase all of the Offered Shares. See ''Plan of Distribution''.
2. Amended and restated license agreement between Canamino and NVI dated as of January 1, 1997 and the patents and patents pending referred to therein, under which NVI sub-licenses to Ceapro all rights for the exclusive use of the patented oat technology. See ''Intellectual Property''.
3. A patent sub-license agreement between Ceapro and Agricoll dated July 1, 1995. See ''Business of the Company – Pharmaceuticals – Veterinary''.
4. Agreements dated January 31, 1997 between Ceapro and Alberta Wheat Pool regarding the supply of oats and the purchase of the Special Warrants. See ''Business of the Company – Suppliers'' and ''Plan of Distribution – Special Warrants''.
5. The escrow agreements between certain shareholders of the Company, the ASE, Montreal Trust Company of Canada and the Company. See ''Escrowed Securities''.
6. The agreements between the Company and each of Wolever and Palmason providing for the transfer of rights relating to the DSP. See ''Capitalization'' and ''Interests of Management and others in Material Transactions''.

Copies of these agreements will be available for inspection at the principal office of the Company, 2830 ManuLife Place, 10180 – 101 Street, Edmonton, Alberta, T5J 3S4 during ordinary business hours while the securities offered by this Prospectus are in the course of distribution and for a period of 30 days thereafter. Copies of the material contracts will also be available for inspection at the offices of the Alberta Securities Commission.

AUDITORS, REGISTRAR AND TRANSFER AGENT

The auditors of the Company are Ernst & Young, Chartered Accountants, 1800 Esso Tower, Scotia Place, 10060 Jasper Avenue, Edmonton, Alberta, T5J 3R8. The registrar and transfer agent in Canada for the Common Shares is Montreal Trust Company of Canada through its office in Calgary, Alberta.

ELIGIBILITY FOR INVESTMENT

Eligibility of the Common Shares offered hereunder for investment by purchasers to whom any of the following statutes apply is, in certain cases, governed by criteria which such purchasers are required to establish as policies or guidelines pursuant to the applicable statute (and, where applicable, the regulations thereunder) and is subject to the prudent investment standards and general investment provisions provided therein:

Trust and Loan Companies Act (Canada)
Insurance Companies Act (Canada)
Pension Benefits Standards Act, 1985 (Canada)
Financial Institutions Act (British Columbia)
Employment Pension Plans Act (Alberta)
Insurance Act (Alberta)
Loan and Trust Corporations Act (Alberta)
The Insurance Act (Manitoba)
The Trustee Act (Manitoba)
Pension Benefits Act (Ontario)
An Act respecting insurance (Quebec) (for insurers, as defined therein, incorporated under the laws of the Province of Quebec other than a mutual association or guarantee fund)
An Act respecting trust companies and savings companies (Quebec) (for saving companies investing their own funds, and by trust companies investing their own funds and deposits received by them)
Supplemental Pension Plans Act (Quebec)

In the opinion of Milner Fenerty and Blake, Cassels & Graydon, as at the date hereof, the Common Shares offered hereby, when listed on a prescribed stock exchange, will be qualified investments under the *Income Tax Act* (Canada) and the Regulations thereunder for trusts governed by registered retirement savings plans, registered retirement income funds or deferred profit sharing plans.

LEGAL MATTERS

Certain matters in connection with the offering of the Common Shares will be passed upon on behalf of the Company by Milner Fenerty and on behalf of the Underwriters by Blake, Cassels & Graydon.

As at the date hereof, the partners or associates of Milner Fenerty and Blake, Cassels & Graydon, each as a group, beneficially own, directly and indirectly, less than 1% of the Common Shares of the Company.

PURCHASERS' STATUTORY RIGHTS

Securities legislation in certain of the provinces provides purchasers with the right to withdraw from an agreement to purchase securities within two business days after receipt or deemed receipt of a prospectus and any amendment. In several of the provinces and territories, securities legislation further provides a purchaser with remedies for rescission or, in some jurisdictions, damages where the prospectus and any amendment contains a misrepresentation or is not delivered to the purchaser but such remedies must be exercised by the purchaser within the time limit prescribed by the securities legislation of their province or territory. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province or territory for the particulars of these rights or consult with a lawyer.

CONTRACTUAL RIGHTS OF RESCISSION

A holder of a Special Warrant who acquires a Unit upon the exercise of the Special Warrant, and who is or becomes entitled under applicable securities legislation to the remedy of rescission by reason of this Prospectus or any amendment thereto containing a misrepresentation, shall, subject to available defenses and any limitation period under applicable securities legislation, be entitled to rescission not only of the holder's exercise of its Special Warrants but also of the private placement transaction pursuant to which the Special Warrants were initially acquired, and shall be entitled, in connection with such rescission, to a full refund of the consideration paid on the acquisition of the Special Warrants. If such holder is a permitted assignee of the interest of an original holder of Special Warrants, such permitted assignee shall be entitled to exercise the rights of rescission and refund granted hereunder as if such permitted assignee were such original subscriber. The foregoing is in addition to any other right or remedy available to a holder of the Special Warrant under section 168 of the *Securities Act* (Alberta), or otherwise at law.

CEAPRO INC.

COMPILATION REPORT

To the Directors of
Ceapro Inc.

We have reviewed, as to compilation only, the accompanying pro forma consolidated balance sheet of **Ceapro Inc.** as at December 31, 1996 and the pro forma consolidated statements of loss and deficit and changes in financial position for the six months ended December 31, 1996. These pro forma consolidated financial statements have been prepared for inclusion in the prospectus relating to the sale and issue of common shares. In our opinion, the pro forma consolidated balance sheet and the pro forma consolidated statements of loss and deficit and changes in financial position have been properly compiled to give effect to the proposed transactions and the assumptions described in the notes thereto.

Edmonton, Canada
March 10, 1997

Chartered Accountants

CEAPRO INC.

PRO FORMA CONSOLIDATED BALANCE SHEET

As at December 31, 1996
Unaudited – See Compilation Report

	Ceapro Historical	Vexco Historical	Adjustments		New Ceapro Proforma
ASSETS					
Current					
Cash	$ 1,013,710	$ 133,164	$ 4,000,000	*[note 2(b)]*	$ 5,146,874
Accounts receivable	1,154,929	114,823	—		1,269,752
Inventories	1,099,301	133,813	—		1,233,114
Prepaid expenses and deposit	41,086	85,001	—		126,087
	3,309,026	466,801	4,000,000		7,775,827
Long-term investments and receivables	972,940	—	(722,940)	*[note 2(a)]*	250,000
Capital assets	8,265,710	41,047	—		8,306,757
Patents, licences and other intangibles	6,023,218	188,579	22,374,981	*[note 2(a)]*	28,656,872
			82,373	*[note 2(c)]*	
			(12,279)	*[note 2(d)]*	
	$ 18,570,894	$ 696,427	$25,722,135		$ 44,989,456
LIABILITIES AND SHAREHOLDERS' EQUITY					
Current					
Bank indebtedness	1,099,078	—	—		1,099,078
Accounts payable and accrued liabilities	1,501,880	270,582	—		1,772,462
Loans and advances payable	324,010	168,000	(168,000)	*[note 2(a)]*	324,010
Current portion of long-term debt	1,295,438	—	—		1,295,438
Current portion of Class B preferred shares of subsidiary	1,250,000	—	—		1,250,000
	5,470,406	438,582	(168,000)		5,740,988
Long-term debt	3,382,921	—	—		3,382,921
Class B preferred shares of subsidiary	1,750,000	—	—		1,750,000
	10,603,327	438,582	(168,000)		10,873,909
Shareholders' equity					
Share capital	18,850,155	6,124,894	16,499,181	*[note 2(a)]*	45,474,230
			4,000,000	*[note 2(b)]*	
Deficit	(10,882,588)	(5,867,049)	5,320,860	*[note 2(a)]*	(11,358,683)
			82,373	*[note 2(c)]*	
			(12,279)	*[note 2(d)]*	
	7,967,567	257,845	25,890,135		34,115,547
	$ 18,570,894	$ 696,427	$25,722,135		$ 44,989,456

CEAPRO INC.

PRO FORMA CONSOLIDATED STATEMENT OF LOSS AND DEFICIT

Six months ended December 31, 1996
Unaudited – See Compilation Report

	Ceapro Historical	Vexco Historical	(Note 2) Adjustments	New Ceapro Proforma
REVENUE				
Sales	$ 559,543	$ 106,272	$ 731,042	$ 1,396,857
Cost of goods sold	516,666	21,764	505,363	1,043,793
Gross margin	42,877	84,508	225,679	353,064
EXPENSES				
Advertising, promotion and marketing	128,116	404,809	95,776	628,701
Amortization	309,540	7,716	345,529	662,785
Dividends on Class B preferred shares of subsidiary	75,807	—	144,715	220,522
General and administrative	1,622,622	477,339	401,396	2,501,357
Interest on long-term obligations	39,099	—	—	39,099
Interest on short-term obligations	35,275	—	134,143	169,418
Research	143,972	232,458	—	376,430
	2,354,431	1,122,322	1,121,559	4,598,312
Loss before the following	(2,311,554)	(1,037,814)	(895,880)	(4,245,248)
Other income (loss)	83,411	7,268	(16,520)	74,159
Share of net loss of Canamino Inc.	(994,773)	—	994,773	—
Share of net loss of Vexco Healthcare Inc.	(484,357)	—	484,357	—
Loss before non-controlling interest	(3,707,273)	(1,030,546)	566,730	(4,171,089)
Non-controlling interest	12,279	—	(12,279)	—
Net loss for the period	(3,694,994)	(1,030,546)	554,451	(4,171,089)
Deficit, beginning of the period	(7,187,594)	(4,836,503)	4,836,503	(7,187,594)
Deficit, end of the period	$(10,882,588)	$(5,867,049)	$5,390,954	$11,358,683)

CEAPRO INC.

PRO FORMA STATEMENT OF CHANGES IN FINANCIAL POSITION

Six months ended December 31, 1996
Unaudited – See Compilation Report

	Ceapro Historical	Vexco Historical	(Note 2) Adjustments	New Ceapro Proforma
CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES				
Net loss for the period	$(3,694,994)	$(1,030,546)	$ 554,451	$(4,171,089)
Add (deduct) charges to operations not requiring a current cash payment:				
Amortization	309,540	7,716	345,529	662,785
Share of net loss of Canamino Inc.	994,773	—	(994,773)	—
Share of net loss of Vexco Healthcare Inc.	484,357	—	(484,357)	—
Non controlling interest	(12,279)	—	12,279	—
Other	(170,501)	—	—	(170,501)
	(2,089,104)	(1,022,830)	(566,871)	(3,678,805)
Net change in non-cash working capital items relating to operations	204,240	55,424	(2,705,845)	(2,446,181)
	(1,884,864)	(967,406)	(3,272,716)	(6,124,986)
CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES				
Investments and receivables:				
Minerva Animal Health Corporation	(1,137,250)	—	—	(1,137,250)
Canamino Inc.	(4,022,732)	—	3,645,401	(377,331)
Vexco Healthcare Inc.	(855,262)	—	(22,456,075)	(23,311,337)
Loan to employee	(250,000)	—	—	(250,000)
Increase in capital assets	(191,678)	(11,990)	(98,253)	(301,921)
Increase in patents, licenses and other intangibles	(97,673)	(15,214)	(207,281)	(320,168)
	(6,554,595)	(27,204)	(19,116,208)	(25,698,007)
CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES				
Increase (decrease) in loans and advances payable	(1,210,236)	168,000	37,124	(1,005,112)
Decrease in long-term debt	(125,512)	—	(272,275)	(397,787)
Redemption of Class B preferred shares of subsidiary	(250,000)	—	—	(250,000)
Share capital	9,231,457	94,855	26,624,075	35,950,387
	7,645,709	262,855	26,388,924	34,297,488
Increase (decrease) in cash during the period	(793,750)	(731,755)	4,000,000	2,474,495
Cash, net of (bank indebtedness), beginning of the period	708,382	864,919	—	1,573,301
Cash, net of (bank indebtedness), end of the period	$ (85,368)	$ 133,164	$ 4,000,000	$ 4,047,796

CEAPRO INC. (''New Ceapro'')

NOTES TO PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1996
Unaudited – See Compilation Report

1. BASIS OF PRESENTATION

These unaudited pro forma consolidated financial statements present:

(a) The arrangement whereby Ceapro and Vexco Healthcare Inc. (''Vexco'') amalgamated on January 1, 1997 and continued under the name Ceapro Inc. (''New Ceapro''), as if that amalgamation had occurred on July 1, 1996.

(b) The issuance of 800,000 special warrants for cash consideration of $4,000,000 as if those warrants had been issued and exercised on July 1, 1996.

(c) The reestablishment of voting control of Canamino and the consolidation thereof as if it had occurred on July 1, 1996.

(d) The acquisition by Ceapro Developments Inc. (''Ceapro'') of certain additional interests in Minerva Animal Health Corporation (''Minerva'') as if those interests had been acquired on July 1, 1996.

The pro forma consolidated financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada, from the audited consolidated financial statements of Ceapro Developments Inc. and the audited financial statements of Vexco Healthcare Inc. as at December 31, 1996.

In the opinion of management, these pro forma consolidated financial statements include all the adjustments necessary for fair presentation. The pro forma consolidated financial statements are not intended to reflect the financial position, results of operations or changes in financial position of Ceapro Inc. which would have actually resulted had the amalgamation and related transactions and other pro forma adjustments been in effect on the dates indicated. Further, the pro forma consolidated financial statements are not necessarily indicative of the financial position, results of operations or changes in financial position that will be achieved in the future.

These unaudited pro forma consolidated financial statements should be read in conjunction with the financial statements of Ceapro Developments Inc. and Vexco Healthcare Inc. included elsewhere in this prospectus.

2. PRO FORMA ASSUMPTIONS AND ADJUSTMENTS

The pro forma consolidated financial statements include the following assumptions and adjustments:

(a) The amalgamation with Vexco as if it occurred on July 1, 1996. The key elements of this transaction are as follows:

(i) For accounting purposes, Ceapro has been identified as the acquirer of Vexco and accordingly, the amalgamation has been accounted for as a purchase. The share capital and deficit of Vexco have been eliminated on acquisition.

(ii) The acquisition of Vexco by Ceapro. These proforma consolidated financial statements reflect a purchase price of $22,624,075 for the 53% of Vexco not already owned by Ceapro. The shareholders of Ceapro received one common share of Ceapro Inc. in return for two common shares of Ceapro. The shareholders of Vexco received one common share of Ceapro Inc. in return for 4.5 common shares of Vexco. In total, 14,843,954 common shares of Ceapro Inc. will be issued. The 47% of Vexco's common shares held by Ceapro on January 1, 1997 were cancelled without any payment or consideration in respect of such shares.

(iii) The excess of consideration paid over the fair value of net assets acquired in the amount of $22,921,170 has been assigned to patents, licences and other intangibles and will be amortized upon commencement of commercial production.

(b) The issuance by New Ceapro of 800,000 special warrants for cash consideration of $4,000,000 effective July 1, 1996.

(c) The consolidation of Canamino effective July 1, 1996. On October 11, 1996, Ceapro reestablished voting control of Canamino. Ceapro had not accounted for its investment in Canamino on a consolidated basis prior to that date as it did not have effective control as a result of the Class B shareholder exercising an option to acquire 51% of the total voting entitlement attached to the common shares.

(d) The consolidation of Minerva as if it were a wholly-owned subsidiary on July 1, 1996. On November 1, 1996, Ceapro acquired the 20% minority interest in Minerva Animal Health Corporation for consideration of $1,137,250.

The excess consideration paid over fair value of net assets acquired paid is determined as follows:

Carrying value of New Ceapro's 47% investment in Vexco at December 31,1996	$ 554,940
Cost of acquisition of remaining 53%	22,624,075
	$23,179,015
Net assets acquired:	
Cash	$ 133,164
Working capital	63,055
Capital assets	41,047
Patents, licences and other intangibles	188,579
Advances from Ceapro	(168,000)
	257,845
Excess consideration paid	$22,921,170

CEAPRO DEVELOPMENTS INC.

AUDITORS' REPORT

To the Directors of
Ceapro Developments Inc.

We have audited the consolidated balance sheets of **Ceapro Developments Inc.** as at December 31, 1996, June 30, 1996 and June 30, 1995 and the consolidated statements of loss and deficit and changes in financial position for the six months ended December 31, 1996 and for each of the years in the two year period ended June 30, 1996. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the company as at December 31, 1996, June 30, 1996 and June 30, 1995 and the results of its operations and the changes in its financial position for the six months ended December 31, 1996 and for each of the years in the two year period ended June 30, 1996 in accordance with generally accepted accounting principles.

Edmonton, Canada
February 21, 1997 (except for note 18(c)
which is of ●)

Chartered Accountants

CEAPRO INC. AND CEAPRO DEVELOPMENTS INC.

CONSOLIDATED BALANCE SHEETS

As at

	Ceapro Inc.	Ceapro Developments Inc.			
	March 31,	December 31,		June 30,	
	1997	1996	1995	1996	1995
	(unaudited)		(unaudited)		
ASSETS					
Current					
Cash	$ 2,006,323	$ 1,013,710	$ 119,260	$ 708,382	$ —
Accounts receivable	1,267,934	1,154,929	154,277	233,780	119,660
Inventories	1,465,158	1,099,301	—	—	—
Prepaid expenses	314,005	41,086	6,548	8,431	8,063
	5,053,420	3,309,026	280,085	950,593	127,723
Long-term investments and receivables *[note 5]*	250,000	972,940	1,345,923	2,995,175	1,117,722
Capital assets *[note 6]*	8,466,344	8,265,710	4,687	86,116	4,905
Patents, licences and other intangibles *[note 7]*	31,593,004	6,023,218	248,786	350,271	—
	$45,362,768	$18,570,894	$1,879,481	$4,382,155	$1,250,350
LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIENCY)					
Current					
Bank indebtedness *[note 8]*	$ 1,176,320	$ 1,099,078	$ —	$ —	$ 2,474
Accounts payable and accrued liabilities	1,273,053	1,501,880	386,252	516,199	161,052
Loans and advances payable *[note 9]*	—	324,010	2,360,324	1,274,073	1,869,500
Current portion of long-term debt *[note 10]*	970,877	1,295,438	—	—	—
Current portion of Class B preferred shares of subsidiary *[note 11]*	1,250,000	1,250,000	—	—	—
	4,670,250	5,470,406	2,746,576	1,790,272	2,033,026
Long-term debt *[note 10]*	3,637,082	3,382,921	148,500	148,500	98,500
Class B preferred shares of subsidiary *[note 11]*	1,750,000	1,750,000	—	—	—
Non-controlling interest	—	—	37,803	12,279	—
	10,057,332	10,603,327	2,932,879	1,951,051	2,131,526
Commitments *[note 12]*					
Contingent liabilities *[note 13]*					
Shareholders' equity (deficiency)					
Share capital *[note 14]*	48,207,249	18,850,155	2,586,580	9,618,698	818,993
Deficit	(12,901,813)	(10,882,588)	(3,639,978)	(7,187,594)	(1,700,169)
	35,305,436	7,967,567	(1,053,398)	2,431,104	(881,176)
	45,362,768	$18,570,894	$1,879,481	$4,382,155	$1,250,350

On behalf of the Board:

(Signed) WILLIAM D. GRACE
Director

(Signed) ROBERT A. BINNENDYK
Director

See accompanying notes

CEAPRO INC. AND

CEAPRO DEVELOPMENTS INC.

CONSOLIDATED STATEMENTS OF LOSS AND DEFICIT

	Ceapro Inc.	Ceapro Developments Inc.				
	Three months ended March 31,	Three months ended March 31,	Six months ended December 31,		Year ended June 30,	
	1997	1996	1996	1995	1996	1995
	(unaudited)	(unaudited)		(unaudited)		
REVENUE						
Sales	$ 468,082	$ —	$ 559,543	$ —	$ —	$ —
Cost of goods sold	405,904	—	516,666	—	—	—
Gross margin	62,178	—	42,877	—	—	—
EXPENSES						
Advertising, promotion and marketing	283,467	48,669	128,116	13,698	58,137	10,025
Amortization	400,252	—	309,540	721	3,387	1,161
Dividends on Class B preferred shares of subsidiary	65,184	—	75,807	—	—	—
General and administrative	863,557	196,143	1,622,622	201,934	1,526,527	164,800
Interest on long-term obligations	41,406	22,918	39,099	—	—	—
Interest on short-term obligations	19,908	—	35,275	215,472	284,139	195,543
Loss on disposal of investments	—	—	—	—	—	5,099
Research	327,380	30,741	143,972	50,673	169,444	44,483
Restructuring and relocation costs	119,836	—	—	—	—	—
Write-off of loan receivable	—	—	—	—	—	62,537
	2,120,990	298,471	2,354,431	482,498	2,041,634	483,648
Loss before the following	(2,058,812)	(298,471)	(2,311,554)	(482,498)	(2,041,634)	(483,648)
Other income	39,587	212	83,411	44	102,870	39,651
Share of net loss of Canamino Inc. *[note 17]*	—	(671,333)	(994,773)	(1,260,505)	(2,993,291)	(1,036,999)
Share of net loss of Vexco Healthcare Inc.	—	(125,664)	(484,357)	(209,047)	(593,091)	—
Loss before non – controlling interest	(2,019,225)	(1,095,256)	(3,707,273)	(1,952,006)	(5,525,146)	(1,480,996)
Non-controlling interest	—	9,813	12,279	12,197	37,721	—
Net loss for the period	(2,019,225)	(1,085,443)	(3,694,994)	(1,939,809)	(5,487,425)	(1,480,996)
Deficit, beginning of the period, as previously stated	(10,882,588)	(3,639,978)	(6,043,298)	(1,700,169)	(1,102,322)	(70,215)
Change in accounting policy *[note 2]*	—	—	(1,144,296)	—	(597,847)	(148,958)
Deficit, end of the period	(12,901,813)	(4,725,421)	$(10,882,588)	$(3,639,978)	$(7,187,594)	$(1,700,169)
Net loss per share	$ (0.13)	$ (0.09)	$ (0.20)	$ (0.21)	$ (0.52)	$ (0.22)

See accompanying notes

CEAPRO INC. AND
CEAPRO DEVELOPMENTS INC.
CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

	Ceapro Inc.	Ceapro Developments Inc.				
	Three months ended March 31,	Three months ended March 31,	Six months ended December 31,		Year ended June 30,	
	1997	1996	1996	1995	1996	1995
	(unaudited)	(unaudited)		(unaudited)		
CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES						
Net loss for the period	$(2,019,225)	$(1,085,443)	$(3,694,994)	$(1,939,809)	$(5,487,425)	$(1,480,996)
Add (deduct) charges to operations not requiring a current cash payment:						
Amortization of capital assets	278,252	—	243,840	721	3,387	1,161
Amortization of patents, licenses and other intangibles	122,000	—	65,700	—	—	—
Share of net loss of Canamino Inc.	—	671,333	994,773	1,260,505	2,993,291	1,036,999
Share of net loss of Vexco Healthcare Inc.	—	125,664	484,357	209,047	593,091	—
Non-controlling interest	—	(9,813)	(12,279)	(12,197)	(37,721)	—
Other	196,219	—	(170,501)	—	—	67,636
	(1,422,754)	(298,259)	(2,089,104)	(481,733)	(1,935,377)	(375,200)
Net change in non – cash working capital items relating to operations	(980,608)	(132,633)	204,240	276,183	324,744	(2,281)
	(2,403,362)	(430,892)	(1,884,864)	(205,550)	(1,610,633)	(377,481)
CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES						
Investments and receivables:						
Minerva Animal Health Corporation	—	—	(1,137,250)	(200,000)	(200,000)	—
Canamino Inc.	(2,706,604)	(1,479,059)	(4,022,732)	(1,604,047)	(4,668,709)	(1,016,440)
Vexco Healthcare Inc.	(22,624,075)	(310,000)	(855,262)	(93,706)	(795,126)	(150,000)
Loan to employee	—	—	(250,000)	—	—	—
Proceeds from sale of investment	—	—	—	—	—	1
Increase in capital assets	(437,839)	—	(191,678)	(503)	(84,598)	(3,187)
Increase in patents, licences and other intangibles	(39,353)	(8,533)	(97,673)	(32,871)	(134,356)	—
	(25,807,871)	(1,797,592)	(6,554,595)	(1,931,127)	(5,882,789)	(1,169,626)
CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES						
Increase (decrease) in loans and advances payable	(324,010)	151,827	(1,210,236)	490,824	(595,427)	723,442
Decrease in long-term debt	(70,400)	—	(125,512)	—	—	—
Redemption of Class B preferred shares of subsidiary	—	—	(250,000)	—	—	—
Share capital	29,521,014	2,112,592	9,231,457	1,767,587	8,799,705	818,988
	29,126,604	2,264,419	7,645,709	2,258,411	8,204,278	1,542,430
Increase (decrease) in cash during the period	915,371	35,935	(793,750)	121,734	710,856	(4,677)
Cash, net of (bank indebtedness), beginning of the period	(85,368)	119,260	708,382	(2,474)	(2,474)	2,203
Cash, net of (bank indebtedness) end of the period	830,003	155,195	$ (85,368)	$ 119,260	$ 708,382	$ (2,474)
Operating cash flow per share	(0.16)	(0.04)	$ (0.10)	$ (0.02)	$ (0.15)	$ (0.06)

See accompanying notes

CEAPRO INC. AND

CEAPRO DEVELOPMENTS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 1997 and 1996, December 31, 1996 and 1995 and June 30, 1996 and 1995 (Information as at March 31, 1997 and 1996 and December 31, 1995 and for the three month and six month periods then ended is unaudited)

1. HISTORY AND NATURE OF OPERATIONS

History

On September 2, 1994, Ceapro Developments Inc. (''Ceapro'') was incorporated under the Business Corporations Act of Alberta by the majority shareholders of Alberta Multi-Ventures Ltd. (''AMV'') in order to acquire the 40% interest in AMV held by the minority shareholders. This transaction was effected on June 15, 1995. On July 1, 1995 Ceapro Developments Inc. and AMV were amalgamated to form the Company.

The basis of preparation of the financial statements to June 30, 1995 reflects the continuity of the interests of the shareholders of Ceapro and AMV in the combined company. The consolidated balance sheet at June 30, 1995 includes the combined assets, liabilities, share capital and deficits of the amalgamating companies. The consolidated statements of loss and deficit and changes in financial position for the year ended June 30, 1995 include the combined results of operations and changes in financial position of the amalgamating companies.

The Company held 80% of Minerva Animal Health Corporation (''Minerva'') until November 1, 1996 when it acquired the 20% minority interest. On December 23, 1996 the operations of Minerva were wound up into the Company (see note 3).

The Company holds 83% of Canamino Inc. (''Canamino''). The investment in Canamino was accounted for on an equity basis to October 11, 1996 and consolidated thereafter. Subsequent to January 1, 1997, the Company acquired the minority interest in Canamino (see note 4).

At December 31, 1996, the Company holds 47% of the issued common shares of Vexco Healthcare Inc. (''Vexco''). The investment in Vexco is accounted for by the equity method. The Company and Vexco amalgamated subsequent to the year end, on January 1, 1997, to form Ceapro Inc. (see notes 5 and 18).

Nature of operations

The Company's primary activities at present relate to the development of various innovative life sciences products and processes relating to oat fractionation technology.

The Company is a development stage enterprise and its ability to successfully realize the carrying value of its assets is dependent upon its ability to arrange and maintain sufficient financing to successfully complete its development activities, to move into commercial operations and to attain positive cash flows.

2. SIGNIFICANT ACCOUNTING POLICIES

Change in fiscal year end

The Company has changed its fiscal year end from June 30 to December 31 effective December 31, 1996, as a result of the amalgamation, on January 1, 1997, with Vexco Healthcare Inc. (see note 18).

Change in accounting policy

In accordance with revised recommendations of The Canadian Institute of Chartered Accountants, the Company has changed its accounting policy for the Class B preferred shares issued by Canamino (see notes 4 and 11). Prior to the adoption of the new recommendations, debt and equity instruments were accounted for as liabilities or equity in accordance with their legal form. Such instruments are now accounted for as liabilities if the issuer is contractually required by the terms of the instrument to settle the instrument in cash upon maturity. If there is no such contractual obligation, the instrument is treated as equity. Interest and dividends are charged to earnings or retained earnings according to the balance sheet classification of the related principal amounts.

The Class B preferred shares issued by Canamino Inc., (''Canamino'') were previously accounted for by Canamino as equity instruments, and dividends on those preferred shares were charged to its retained earnings. These preferred shares are, in all material respects, liabilities and have been retroactively accounted for as such. This has the effect of increasing its net loss, and the Company's equity-accounted portion thereof, for all periods since the issuance of those preferred shares. This change increases the net loss of the Company for the periods ended December 31, 1996 and 1995 and the years ended June 30, 1996 and 1995 by $144,715, $278,626, $546,449 and $448,889 respectively. This change increases the opening deficit for the period ended June 30, 1995 by $148,958.

Subsequent to October 11, 1996, the Class B preferred share liability has been accounted for by the Company on a consolidated basis (see note 4).

Inventories

Inventory of raw materials is valued at the lower of cost and net realizable value with cost being determined on a first-in, first-out basis.

Inventory of work in progress and finished goods is valued at the lower of cost and net realizable value with cost being determined using full absorption costing on a first-in, first-out basis.

Capital assets

Capital assets are recorded at cost and are amortized over their estimated useful lives as follows:

Building	2.5%	straight-line
Furniture and equipment	20%	declining balance
Computer equipment	20 – 30%	declining balance
Laboratory and production equipment	20%	straight-line
Leasehold improvements	20%	straight-line

Patents, licences and other intangibles

Patents, licences and other intangibles are recorded at cost less accumulated amortization. Amortization is recorded on a straight-line basis over periods ranging from 10 to 20 years commencing the later of the year the patent is granted, licence acquired or commercial production is achieved. On an ongoing basis, management reviews the valuation and amortization of these assets, taking into consideration any events or circumstances which might have impaired the fair value. Should there be a permanent decline in the value of these assets below their carrying value, the assets would be written down to their estimated recoverable value.

Fair values

The fair value of financial instruments is generally determined as follows:

Accounts receivable, accounts payable and loans and advances payable are all short term in nature and as such, their carrying value approximates fair value.

The fair value of Class B preferred shares was estimated using discounted cash flows based on current rates of interest.

The fair value of bank loans which float with prime is assumed to be equal to their carrying value.

The fair value of non-interest bearing loans and receivables is estimated using discounted cash flows based on current rates of interest for similar lending arrangements.

Unless otherwise disclosed in the notes to the financial statements, the fair value of an instrument approximates its carrying value.

Foreign currency translation

Revenue and expense transactions have been translated to their Canadian dollar equivalent using the average exchange rate for the period.

Current monetary assets and liabilities are translated to their Canadian dollar equivalent at the rates effective at the balance sheet date.

Loss per share

Loss per share is calculated using the weighted average number of shares outstanding. Fully diluted loss per share has not been provided as the effects of the assumed exercise of stock options described in note 14 are anti-dilutive.

Operating cash flow per share

Operating cash flow per share is calculated using the monthly weighted average number of shares outstanding during the period. Operating cash flow is defined as cash provided by (used in) operating activities.

3. ACQUISITION OF MINERVA ANIMAL HEALTH CORPORATION

On July 1, 1995, the Company acquired an 80% interest in Minerva Animal Health Corporation (‘‘Minerva’’) for cash consideration of $200,000.

On November 1, 1996, the Company acquired the remaining 20% interest in Minerva for consideration of $1,137,250. The consideration was comprised of 364,083 common shares of the Company at $3 per share plus acquisition costs of $45,000.

The excess consideration paid over the fair value of net assets acquired in the amount of $1,078,025 has been attributed to patents, licences and other intangibles.

The acquisitions have been accounted for using the purchase method and are summarized as follows:

Total cost of acquisitions	$1,337,250
Net assets acquired at fair values	
Working capital	88,736
Patents, licences and other intangibles	1,298,514
Long-term debt	(50,000)
	$1,337,250

On December 23, 1996 the operations of Minerva were wound up into the Company.

4. ACQUISITION OF CANAMINO INC.

At December 31, 1996, the Company owned 83% (December 31, 1995 – 63%; June 30, 1996 – 70%; June 30, 1995 – 56%) of the equity (Class A common shares) of Canamino Inc. (''Canamino'').

The Company initially obtained significant influence over Canamino in October 1993 and acquired 51% of its equity on September 30, 1994.

Canamino has also issued a class of preferred, non-voting (Class B) shares (see notes 2 and 11). On issue of the Class B shares, the Class B shareholder was granted an option to acquire 51% of the total voting entitlement attached to the common shares of Canamino, effective under defined conditions including a default in the payment of dividends on the Class B shares. Such a default occurred, and the option became exercisable shortly after September 30, 1994. The option was exercised by the Class B shareholder on September 5, 1995. On October 11, 1996, Canamino remedied the default by remitting the dividend arrears, plus interest and agreed costs, to the Class B shareholder. The Company reestablished voting control of Canamino at that time.

The Company considered it lost effective control over Canamino when the option became exercisable and therefore did not account for its investment on a consolidated basis prior to October 11, 1996. The Company did, however, continue to exercise significant influence over Canamino throughout that period and accordingly accounted for its investment on an equity basis.

During the period May 1993 to October 11, 1996, the Company acquired approximately 79.8% of Canamino for cash consideration of $9,328,715 plus acquisition costs of $195,530.

The acquisitions have been accounted for using the purchase method and are summarized as follows:

Total cost of acquisitions	$9,524,245
Less: losses of Canamino accounted for on an equity basis to October 11,1996	(5,174,021)
	$4,350,224

Net assets acquired at fair values

Working capital	$ 976,171
Capital assets	8,343,571
Patents, licences and other intangibles	4,327,417
Loan payable	(1,399,147)
Long-term debt	(4,655,371)
Class B preferred shares	(3,242,417)
	$4,350,224

During the period from October 12, 1996 to December 31, 1996, the Company acquired an additional 3.2% of Canamino for cash consideration of $1,897,491 plus 30,454 common shares of the Company at $3 per share.

The excess consideration paid over the fair value of net assets acquired in the amount of $1,189,454 has been attributed to patents, licences and other intangibles.

Subsequent to December 31, 1996, Ceapro Inc., the successor company to Ceapro Developments Inc., acquired the remaining 17% minority interest of Canamino Inc. on the basis of a share exchange of 676,651 common shares of Ceapro Inc. at an agreed value of $4 per share for 1,343,303 common shares of Canamino Inc.

5. LONG-TERM INVESTMENTS AND RECEIVABLES

	Ceapro Inc.	Ceapro Developments Inc.			
	March 31,	December 31,		June 30,	
	1997	1996	1995	1996	1995
Investments					
Canamino Inc. *[note 4]*	$ —	$ —	$ 802,117	$ 726,179	$ 967,622
Vexco Healthcare Inc. (47%)	—	554,940	93,706	352,035	—
Vexco Healthcare Inc. – deposit on share acquisition agreement	—	—	—	—	150,000
Canaveena Corporation (100% – inactive)	—	—	100	100	100
	$ —	$554,940	$ 895,923	$1,078,314	$1,117,722
Receivables					
Loan to employee	250,000	250,000	—	—	—
Vexco Healthcare Inc.	—	168,000	—	—	—
Canamino Inc. *[note 4]*	—	—	450,000	1,916,861	—
	250,000	418,000	450,000	1,916,861	—
	250,000	972,940	1,345,923	2,995,175	1,117,722

Vexco Healthcare Inc. (''Vexco'')

In July 1995, the Company and Vexco executed a share acquisition agreement whereby the Company agreed to pay Vexco $150,000 and provide Vexco with access to certain technology in exchange for 16,734,500 common shares of Vexco.

During the year ended June 30, 1996 the Company made non-interest bearing advances of $795,126 to Vexco. These advances were applied by the Company to exercise warrants to acquire 1,686,171 common shares of Vexco.

During the period ended December 31, 1996 the Company made non-interest bearing advances of $168,000 to Vexco.

On January 1, 1997, Vexco and the Company amalgamated to form Ceapro Inc. (see note 18). Costs in the amount of $687,262 to December 31, 1996 incurred with respect to the amalgamation have been added to the carrying value of the Company's investment in Vexco at that date.

The carrying value of the Company's investment in Vexco is determined as follows:

Total cost of investment	$1,632,388
Less: losses of Vexco accounted for on an equity basis to December 31, 1996	(1,077,448)
	$ 554,940

Loan to employee

The loan to employee is non-interest bearing and must be repaid in full on or before September 1, 2001. The estimated fair value of the loan was $203,835 at December 31, 1996.

6. CAPITAL ASSETS

	Ceapro Inc. March 31, 1997			Ceapro Developments Inc. December 31, 1996		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Building	$4,069,180	$ 49,382	$4,019,798	$4,069,180	$ 23,222	$4,045,958
Furniture and equipment	138,768	13,201	125,567	93,249	7,818	85,431
Computer equipment	97,871	18,910	78,961	92,373	11,721	80,652
Laboratory and production equipment	4,148,440	426,092	3,722,348	4,025,255	196,301	3,828,954
Leasehold improvements	156,897	18,408	138,489	156,897	8,682	148,215
Capital in progress	381,181	—	381,181	76,500	—	76,500
	$8,992,337	$525,993	$8,466,344	$8,513,454	$247,744	$8,265,710

	December 31, 1995		
	Cost	Accumulated Amortization	Net Book Value
Furniture and equipment	$1,962	$ 344	$1,618
Computer equipment	3,953	884	3,069
	$5,915	$1,228	$4,687

	June 30, 1996		
	Cost	Accumulated Amortization	Net Book Value
Furniture and equipment	$49,130	$1,523	$47,607
Computer equipment	40,881	2,372	38,509
	$90,011	$3,895	$86,116

	June 30, 1995		
	Cost	Accumulated Amortization	Net Book Value
Furniture and equipment	$ 5,333	$1,938	$ 3,395
Computer equipment	1,853	343	1,510
	$ 7,186	$2,281	$ 4,905

7. PATENTS, LICENCES AND OTHER INTANGIBLES

	March 31, 1997		
	Cost	Accumulated Amortization	Net Book Value
Patents, licences and other intangibles	$31,780,704	$187,700	$31,593,004

	December 31, 1996		
	Cost	Accumulated Amortization	Net Book Value
Patents, licences and other intangibles	$6,088,918	$65,700	$6,023,218

	December 31, 1995		
	Cost	Accumulated Amortization	Net Book Value
Patents, licences and other intangibles	$248,786	$ —	$248,786

	June 30, 1996		
	Cost	Accumulated Amortization	Net Book Value
Patents, licences and other intangibles	$350,271	$ —	$350,271

8. BANK INDEBTEDNESS

The Company has an operating line of credit of $1 million. Amounts advanced under this line of credit are due on demand and bear interest at prime plus 1.25%. Collateral on these advances is detailed in note 10.

9. LOANS AND ADVANCES PAYABLE

	Ceapro Inc.	Ceapro Developments Inc.			
	March 31,	December 31,		June 30,	
	1997	1996	1995	1996	1995
Nuvotech Ventures International Inc. unsecured loan due on demand. Interest at Royal Bank prime lending rate plus 2%	$ —	$274,010	$ —	$ —	$ —
Advances from shareholders, unsecured and due on demand. Interest at 10% up to June 30, 1996 and non-interest bearing thereafter	—	50,000	1,360,324	774,073	869,500
D.L.M. Investments Inc. loan due September 4, 1996. Interest at Royal Bank prime lending rate plus 2%	—	—	—	500,000	—
Royal Bank of Canada loan due February 29, 1996. Interest at prime plus 2%	—	—	1,000,000	—	1,000,000
	$ —	$324,010	$2,360,324	$1,274,073	$1,869,500

Subsequent to December 31, 1996, the Nuvotech Ventures International Inc. loan was repaid in full.

In February 1996, D.L.M. Investments Inc. (''D.L.M.''), a company owned by a shareholder and director, purchased the collateral held by the Royal Bank on the demand loan due February 29, 1996 for the balance outstanding of $1,000,000.

The Company had provided the following collateral in respect of the Royal Bank loan:

(a) General Security Agreement

(b) Assignment of shares in Canamino Inc.

(c) Assignment of shares in Vexco Healthcare Inc.

(d) Guarantees and postponements of claim by certain shareholders.

Pursuant to an agreement between D.L.M. and the Company, all of the above security was released with the exception of the General Security Agreement.

Also, in order to facilitate the Company's cash flow, D.L.M. and the Company agreed to the following repayment terms:

Date of payment	Year ended June 30, 1996	Period ended December 31, 1996	Period ended December 31, 1995	Total
June 17, 1996	$150,000	$ —	$ —	$ 150,000
July 17, 1996	—	150,000	—	150,000
August 1, 1996	—	150,000	—	150,000
September 3, 1996	—	200,000	—	200,000
September 4, 1996	—	350,000	—	350,000
	150,000	850,000	—	1,000,000
Less: September 4, 1996 payment to be made by way of conversion to Class A common shares *[note 14]*	—	350,000	—	350,000
Cash repayments on loan	$150,000	$500,000	$ —	$ 650,000

The September 4, 1996 payment of $350,000 was made by way of conversion to 280,000 Class A common shares of the Company at $1.25 per share.

Interest paid to D.L.M. during the year ended June 30, 1996 totalled approximately $24,000 of which $2,764 is included in accounts payable at June 30, 1996.

Interest paid to D.L.M. during the six month period ended December 31, 1996 totalled approximately $9,200.

10. LONG-TERM DEBT

	Ceapro Inc.	Ceapro Developments Inc.			
	March 31,	December 31,		June 30,	
	1997	1996	1995	1996	1995
Royal Bank loan due May 1999 and repayable in monthly installments of principal and interest of $90,000 commencing March 1997 to February 1998 and $100,000 from March 1998 to May 1999. Interest is at the bank's prime rate plus 2%.	$2,487,846	$2,487,846	$ —	$ —	$ —
Royal Bank loan due February 2000 and repayable in monthly installments of $4,300 plus interest. Interest is at the bank's prime rate plus 1.5%.	142,500	155,400	—	—	—
Western Economic Diversification Loans, due February 1998 and January 2001. Repayable in quarterly instalments of $120,663 to February 1993 and $102,150 from March 1998 to January 2001. The loans are unsecured and interest free for the entire term.	1,829,113	1,829,113	—	—	—
John A. Shaw Associates Inc. The loan is unsecured, non-interest bearing and has no specific terms of repayment.	—	57,500	—	—	—
Province of Alberta forgivable loan	98,500	98,500	98,500	98,500	98,500
Ag-West Biotech Inc. loan	50,000	50,000	50,000	50,000	—
	4,607,959	4,678,359	148,500	148,500	98,500
Less current portion	970,877	1,295,438	—	—	—
	$3,637,082	$3,382,921	$148,500	$148,500	$98,500

A $5 million fixed and floating charge debenture with fixed first charge over building and floating charge over all other assets and a general security agreement with specific charge against larger pieces of equipment have been pledged as collateral on the Royal Bank operating line of credit [see note 8] and Royal Bank loans above.

The Province of Alberta has provided the Company with a $98,500 forgivable loan to conduct a feasibility study with respect to the construction of a large scale oat processing facility in Alberta. The loan must be repaid if the feasibility study proves the facility to be viable but the facility is not built or is built outside Alberta.

The Ag-West Biotech Inc. loan was provided to fund a feasibility/business plan for the Company. The loan is repayable once commercial products are produced and sold and bears interest at prime plus 2% beginning six months after the commencement of commercial production. If commercial products are not developed the loan is forgivable.

The estimated fair value of the Company's long term debt at December 31,1996 is $4,328,625 (December 31, 1995 – $35,711; June 30, 1996 – $39,685; June 30, 1995 – NIL)

The effective interest rate of the company's long term debt is 6.75% at December 31, 1996.

Principal payments on loans due in the next five years are as follows:

1997	$1,295,438
1998	1,562,197
1999	1,103,374
2000	409,200
2001	159,650
	4,529,859
Province of Alberta and Ag-West Biotech Inc. loans	148,500
	$4,678,359

11. CLASS B PREFERRED SHARES OF SUBSIDIARY

Canamino is authorized to issue 1,300,000 Class B and 1,300,000 Class C preferred non-voting shares and at December 31, 1996 has 1,200,000 Class B preferred shares outstanding. These shares are redeemable at the option of the corporation at a price per share of $2.50 at any time up to October 27, 1997. Minimum redemptions of 500,000 and 700,000 shares are required on or about October 27, 1997 and October 27, 1998 at prices per share of $2.75 and $3.00 respectively, plus any cumulative dividends in arrears.

These shares entitle the holders to an 11% cumulative dividend. In addition, the holders may elect to receive an additional variable cumulative dividend set at 25% of the after-tax net profit of the corporation; however, for any fiscal year during which such an election is made, the redemption price per share for that year is reduced to $2.

The shares are convertible to Class A equity shares at a rate of 1:1 if all Class B or Class C shares have not been redeemed by the fifth anniversary of issuance or if any variable cumulative dividends are unpaid.

During the six month period ended December 31, 1996, 100,000 Class B shares were redeemed for cash consideration of $250,000.

The fair value of the Class B preferred shares at December 31, 1996 was $2,546,465.

12. COMMITMENTS

(a) The Company has committed to spend approximately $300,000 on research, of which approximately $150,000 had been spent by December 31, 1996.

(b) Minimum annual payments required under operating leases for office facilities and equipment for the next five years are as follows:

1997	$75,952
1998	81,038
1999	80,118
2000	80,092
2001	$73,591

(c) Pursuant to a technology licence agreement, the Company has exclusive rights to certain patents and trade secrets. The license expires on the later of the date of expiration of the last remaining patent or 10 years from the date of first commercial sale of the licensed product which is defined as a calendar month with sales greater than $50,000.

As a condition of the grant of the license, the Company shall contract with the University of Saskatchewan, and effect payment for $500,000 of research and development within 5 years of this agreement of which not less than $300,000 must be before May 1, 1998.

(d) The Company is committed under a licensing agreement to pay a royalty calculated as the greater of 5% of total net sales billed or the following annually:

1997	$ 75,000
1998 and thereafter	100,000

13. CONTINGENT LIABILITIES

The Company has been named in a lawsuit by a supplier for a total of $439,446 plus interest. The Company has launched a counterclaim and management believes it will be successful in defending against this lawsuit; however such litigation is subject to many uncertainties and the outcome cannot be reasonably estimated. Any amounts incurred by the Company will be recorded as expense when they are determinable.

14. SHARE CAPITAL

	Ceapro Inc. March 31, 1997		Ceapro Developments Inc. December 31, 1996	
	Number of Shares	Amount	Number of Shares	Amount
Authorized				
Unlimited number of Class A voting common shares				
Unlimited number of Class B non-voting common shares				
Issued – Class A common shares				
Balance, beginning of the period	20,223,535	$18,540,955	14,170,255	$ 8,945,398
Issued during the period for:				
Share consolidation (one for two)	(10,111,768)			
Cash	12,612	27,500	5,321,076	7,975,444
Repayment of debt	100,000	250,000	280,000	350,000
Services rendered	15,334	46,000	57,667	86,501
Acquisitions	5,272,437	25,247,842	394,537	1,183,612
	(4,711,385)	25,571,342	6,053,280	9,595,557
	15,512,150	44,112,297	20,223,535	18,540,955
Special Warrants	800,000	4,000,000	—	—
To be issued	21,067	94,952	239,467	309,200
Balance, end of the period	16,333,217	48,207,249	20,463,002	$18,850,155

	December 31, 1995	
	Number of Shares	Amount
Balance, beginning of the period	8,727,217	$ 818,993
Issued during the period for:		
Cash	1,159,109	1,647,587
Subscribed for but unissued	80,000	120,000
	1,239,109	1,767,587
Balance, end of the period	9,966,326	$2,586,580

	June 30, 1996	
	Number of Shares	Amount
Balance, beginning of the period	8,727,217	$ 818,993
Issued during the period for:		
Cash	5,168,649	7,714,821
Subscribed for but unissued	274,389	411,584
	5,443,038	8,126,405
	14,170,255	8,945,398
To be issued	528,667	673,300
Balance, end of the period	14,698,922	$9,618,698

	June 30, 1995	
	Number of Shares	Amount
Issued during the period for:		
Cash	8,000,000	$ 869
Subscribed for but unissued	727,217	818,124
Balance, end of the period	8,727,217	$ 818,993

The shares to be issued are in respect of the following:

	Ceapro Inc.	Ceapro Developments Inc.			
	March 31	December 31,		June 30,	
	1997	1996	1995	1996	1995
D.L.M. Investments Inc. – final payment on loan – 280,000 Class A common shares *[note 9]*	$ —	$ —	$ —	$350,000	$ —
Director and shareholder – management fee – 200,000 Class A common shares payable January 2, 1997	—	250,000	—	250,000	—
Employees in lieu of salary – 4,400 (December 31, 1996 – 8,800; June 30, 1996 – 48,867) Class A common shares	13,200	13,200	—	73,300	—
Board remuneration for fiscal 1996 – 30,667 Class A common shares	—	46,000	—	—	—
Acquisitions – 16,667 Class A common shares	81,752	—	—	—	—
	94,952	$309,200	$ —	$673,300	$ —

The Company has established a stock option plan for directors, officers and employees. Stock options have been granted for 2,210,000 Class A shares (June 30, 1996 – 1,650,000; June 30, 1995 – NIL) at exercise prices of $1.50 per share over 4 years.

15. RELATED PARTY TRANSACTIONS

Related party transactions not otherwise disclosed in these consolidated financial statements are as follows:

	Ceapro Inc.	Ceapro Developments Inc.			
	March 31	December 31,		June 30,	
	1997	1996	1995	1996	1995
Transactions with directors and shareholders					
Financing charges	$ —	$ —	$ —	$ 10,000	$ —
Legal fees, rent of equipment, salaries and contract services included in general and administrative expense	34,500	1,365	—	364,418	—
Research	—	39,026	4,438	53,376	4,438
Transactions with affiliate					
Interest income	—	$37,410	$ —	$ 99,475	$ —

At December 31, 1996, accounts payable and accrued liabilities includes an amount of $51,867 (June 30, 1996 – $41,538) in respect of the above related party transactions.

At March 31, 1997, accounts receivable includes an amount of $69,990 due from employees and shareholders. Additionally, accounts payable and accrued liabilities includes an amount of $100,000 due to an employee and shareholder.

16. INCOME TAXES

The Company has accumulated losses carried forward for income tax purposes amounting to $3,255,117 the benefit of which has not been reflected in these financial statements. These losses may be applied against future taxable income within the limitations prescribed by the Income Tax Act and must be claimed not later than:

1997	$ 28,437
1998	32,390
2000	40,790
2001	355,998
2002	1,800,158
2003	997,344
	$3,255,117

In addition, the Company has net capital losses of $46,902 which can be carried forward indefinitely to offset future taxable capital gains.

To December 31, 1996 the Company has accumulated a scientific research and experimental development expenditure pool of $395,278 which can be carried forward indefinitely to be applied against future income for tax purposes.

17. SUPPLEMENTARY INFORMATION

The following statement of loss is presented for Canamino Inc. for the period July 1, 1996 to October 11, 1996 which reflects the detailed components of the Company's share of net loss of Canamino Inc. prior to the commencement of consolidation on October 11, 1996.

Canamino Inc.

STATEMENT OF LOSS

For the period July 1, 1996 to October 11, 1996

REVENUE	
Sales	$ 731,042
Cost of goods sold	505,363
Gross margin	225,679
EXPENSES	
Advertising, promotion and marketing	95,776
Amortization	427,902
Dividends on Class B preferred shares	144,715
General and administrative	401,396
Interest on long-term obligations	134,143
	1,203,932
Loss before the following	(978,253)
Other loss	(16,520)
Net loss for the period	$ (994,773)

18. SUBSEQUENT EVENTS

(a) Plan of arrangement with Vexco Healthcare Inc. (''Vexco'')

On January 1, 1997 the Company and Vexco Healthcare Inc. amalgamated to form Ceapro Inc. (''New Ceapro''). The amalgamation was pursuant to a Plan of Arrangement under the Alberta Business Corporations Act and received approval of the shareholders of both companies in December 1996.

The Plan of Arrangement provides that the holders of the common shares of the Company are to receive one common share of New Ceapro for each two common shares of the Company and the holders of common shares of Vexco are to receive one common share of New Ceapro for each four and one-half common shares of Vexco. The 18,420,671 shares of Vexco owned by the Company are to be cancelled.

The above conversion ratios are to also be applied to the holders of options and warrants to acquire common shares of the Company and Vexco.

For accounting purposes, New Ceapro has been identified as the acquirer of Vexco and accordingly, the amalgamation will be accounted for as a purchase.

The cost of the acquisition in the amount of $22,624,075 will be paid by way of issuance of 4,612,452 common shares at $4.905 per share.

The acquisition is summarized as follows:

Investment in Vexco – December 31, 1996 *[note 5]*	$ 554,940
Acquisition – January 1, 1997	22,624,075
	$23,179,015

Net assets acquired at fair value:

Cash	$ 133,164
Working capital	63,055
Capital assets	41,047
Patents, licences and other intangibles	23,109,749
Advances from Ceapro	(168,000)
	$23,179,015

(b) Special warrants

On January 31, 1997 New Ceapro issued 800,000 special warrants for cash consideration of $4,000,000. Each special warrant can be exchanged for one common share of New Ceapro. In addition, each warrant has attached to it a ½ warrant which can be exercised for common shares at a conversion rate of one full warrant at $5 per share for a period of one year following the day on which a receipt for a prospectus qualifying the distribution of the special warrants is received from the Alberta Securities Commission.

(c) Offering

On ● , 1997, New Ceapro filed a final prospectus for the sale of ● common shares at a price of $ ● per share, for gross proceeds of $ ● before deducting underwriting fees of $ ● and other estimated expenses of the offering of $ ● . The prospectus also qualified the distribution of the common shares and warrants issued on exercise of the 800,000 special warrants described in note 18(b). New Ceapro also granted to the underwriters an option, exercisable at any time prior to ● , 1999, to acquire up to ● common shares at an exercise price of ● per share.

VEXCO HEALTHCARE INC.

AUDITORS' REPORT

To the Directors of
Vexco Healthcare Inc.

We have audited the balance sheet of **Vexco Healthcare Inc.** as at December 31, 1996 and the statements of loss and deficit and changes in financial position for the six months then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the company as at December 31, 1996 and the results of its operations and the changes in its financial position for the six months then ended in accordance with generally accepted accounting principles.

Edmonton, Canada
February 7, 1997

Chartered Accountants

VEXCO HEALTHCARE INC.

BALANCE SHEET

As at December 31, 1996

ASSETS	
Current	
Cash	$ 133,164
Accounts receivable *[note 8a]*	114,823
Inventories	133,813
Prepaid expenses and deposit	85,001
	466,801
Capital assets *[note 3]*	41,047
Other assets *[note 4]*	188,579
	$ 696,427
LIABILITIES AND SHAREHOLDERS' EQUITY	
Current	
Accounts payable and accrued liabilities *[note 8b]*	$ 270,582
Advances from affiliate *[note 5]*	168,000
	438,582
Commitments *[note 6]*	
Shareholders' equity	
Share capital *[note 7]*	6,124,894
Deficit	(5,867,049)
	257,845
	$ 696,427

On behalf of the Board:

(Signed) WILLIAM D. GRACE
Director

(Signed) ROBERT A. BINNENDYK
Director

See accompanying notes

VEXCO HEALTHCARE INC.

STATEMENT OF LOSS AND DEFICIT

Six months ended December 31, 1996

REVENUE	
Sales	$ 106,272
Cost of goods sold	21,764
Gross margin	84,508
EXPENSES	
Advertising, promotion and marketing	404,809
Amortization	7,716
General and administrative	477,339
Research	232,458
	1,122,322
Loss before the following	(1,037,814)
Other income	7,268
Net loss for the period	(1,030,546)
Deficit, beginning of the period	(4,836,503)
Deficit, end of the period	$(5,867,049)
Net loss per share	$ (0.03)

See accompanying notes

VEXCO HEALTHCARE INC.

STATEMENT OF CHANGES IN FINANCIAL POSITION

Six months ended December 31, 1996

CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	
Net loss for the period	$(1,030,546)
Add charges to operations not requiring a current cash payment:	
Amortization	7,716
	(1,022,830)
Net change in non-cash working capital items relating to operations	55,424
	(967,406)
CASH USED IN INVESTMENT ACTIVITIES	
Increase in capital assets	(11,990)
Increase in patent costs and licenses	(15,214)
	(27,204)
CASH PROVIDED BY FINANCING ACTIVITIES	
Advances from affiliate	168,000
Share capital	94,855
	262,855
Decrease in cash during the period	(731,755)
Cash, beginning of the period	864,919
Cash, end of the period	$ 133,164

See accompanying notes

VEXCO HEALTHCARE INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 1996

1. OVERVIEW

Basis of presentation

These financial statements are presented for the purpose of supporting the proforma consolidated financial statements of Ceapro Inc. at December 31, 1996 for inclusion in the Prospectus and accordingly, comparative figures are not provided.

History and nature of operations

Vexco Healthcare Inc. (''the Company'') is incorporated under the Business Corporation Act of Alberta. The Company's primary business activities have been directed mainly towards the development of pharmaceutical products. At December 31, 1996 a commercial level of production and sales had not been achieved for the majority of its major products.

Pursuant to an arrangement agreement dated November 8, 1996, subsequently ratified by the shareholders on December 20, 1996, the Company amalgamated with Ceapro Developments Inc. The amalgamation was effective January 1, 1997 and has resulted in the continuing of business as Ceapro Inc. The amalgamation transaction has not been reflected in these financial statements.

2. SIGNIFICANT ACCOUNTING POLICIES

Inventories

Inventory is valued at the lower of cost and net realizable value.

Capital assets

Capital assets are recorded at cost and are amortized over their estimated useful lives as follows:

Furniture and equipment	20%	declining balance
Computer equipment	30%	declining balance
Leasehold improvements	20%	straight-line

Other assets

Patent costs and licences

Patent costs and licences are recorded at cost less accumulated amortization. Amortization is recorded on a straight-line basis commencing the later of the year the patent is granted, the licence is acquired or commercial production is achieved. On an ongoing basis, management reviews the valuation and amortization of these assets, taking into consideration any events or circumstances which might have impaired the fair value. Should there be a permanent decline in the value of these assets below their carrying value, the assets would be written down to their estimated recoverable value.

Certain existing licences are being amortized on a straight-line basis over 17 years.

Deferred marketing charges

Deferred marketing charges are amortized on a straight-line basis over five years, the estimated period of benefit.

Research and development

Research costs are expensed in the year incurred.

Development costs are charged to operations in the period incurred unless they meet certain specific criteria related to technical, market and financial feasibility, in which case they are deferred.

All expenditures to date have been charged to operations.

Fair values

The fair values of the Company's financial insturments approximates their carrying values.

Loss per share

Loss per share is calculated using the weighted average number of shares outstanding. Fully diluted loss per share has not been disclosed as the effects of the assumed exercise of stock options and share purchase warrants described in note 7 are anti-dilutive.

3. CAPITAL ASSETS

	Cost	Accumulated amortization	Net book value
Furniture and equipment	$ 30,356	$ 8,859	$ 21,497
Computer equipment	26,158	6,608	19,550
Leasehold improvements	3,695	3,695	—
	$ 60,209	$19,162	$ 41,047

4. OTHER ASSETS

	Cost	Accumulated amortization	Net book value
Patent costs and licences	$190,450	$16,871	$173,579
Deferred marketing charges	20,000	5,000	15,000
	$210,450	$21,871	$188,579

5. ADVANCES FROM AFFILIATE

The advances from the Company's affiliate, Ceapro Developments Inc., are unsecured, non-interest bearing and have no specified terms of repayment.

6. COMMITMENTS

(a) Pursuant to a research agreement with the University of Ottawa, the Company has committed to expend $526,000 in respect of research. At December 31, 1996 approximately $288,000 had been spent in respect of this commitment.

The agreement provides that the Company will have joint title to certain intellectual property arising from the research. In addition, the Company has a non-exclusive, royalty free licence to use certain intellectual property for non-commercial purposes and an option to acquire rights to commercially exploit certain intellectual property.

(b) The Company has entered into various agreements for management and other services requiring an annual expenditure of $210,000.

Included in this amount is an annual expenditure of $60,000 payable to a company owned by a director and shareholder and $60,000 payable to a director.

7. SHARE CAPITAL

	Number of shares	Amount
Authorized		
An unlimited number of voting common shares		
Issued		
Balance, beginning of the period	38,918,085	$5,990,289
As payment for services received	75,000	30,000
For cash:		
Pursuant to exercise of stock options	108,618	64,855
To be issued	75,000	39,750
	258,618	134,605
Balance, end of the period	39,176,703	$6,124,894

The shares to be issued are payment for services received under a marketing consulting agreement. Under terms of this agreement, the Company is required to issue up to an additional 100,000 shares for the achievement of certain performance measures.

Stock options have been granted to directors, officers, employees and consultants for 2,310,510 common shares at exercise prices ranging from $0.37 to $1.50 per share expiring from September 30, 1997 to November 4, 2001.

The Company has reserved 1,597,500 common shares for issuance upon the exercise of outstanding share purchase warrants issued pursuant to private placements of common shares at exercise prices from $0.37 to $1.23 expiring from April 15, 1997 to May 8, 2000, of which 535,000 warrants are held by Ceapro Developments Inc.

8. RELATED PARTY TRANSACTIONS

Related party transactions not otherwise disclosed in the financial statements are as follows:

(a) Accounts receivable at December 31, 1996 include $51,893 in advances to employees, officers and directors.

(b) Accounts payable at December 31, 1996 include an amount of $100,000 due to an officer and director.

9. INCOME TAXES

The Company has accumulated losses carried forward for income tax purposes amounting to $3,315,152 the benefit of which has not been reflected in these financial statements. These losses may be applied against future taxable income within the limitations prescribed by the Income Tax Act and must be claimed not later than:

1999	$ 633,441
2000	813,155
2001	918,838
2002	949,718
	$3,315,152

To December 31, 1996 the Company has accumulated a scientific research and experimental development expenditure pool of $656,398 which can be carried forward indefinitely to be applied against future income for tax purposes.

To December 31, 1996 the Company has accumulated scientific research and experimental development investment tax credits which can be carried forward 10 years to be applied against future taxes payable. The tax credits expire as follows:

2004	$ 25,574
2005	65,822
2006	49,972
	$141,368

10. SUBSEQUENT EVENT

On January 1, 1997 the Company and Ceapro Developments Inc. amalgamated to form Ceapro Inc. (‘‘New Ceapro’’). The amalgamation was pursuant to a Plan of Arrangement under the Alberta Business Corporations Act and received approval of the shareholders of both companies in December 1996.

The Plan of Arrangement provides that the holders of the common shares of the Company are to receive one common share of New Ceapro for each four and one-half common shares of the Company and the holders of the common shares of Ceapro Developments Inc. are to receive one common share of New Ceapro for each two common shares of Ceapro Developments Inc. The 18,420,671 shares of the Company owned by Ceapro Developments Inc. are to be cancelled.

The above conversion ratios are to also be applied to the holders of options and warrants to acquire common shares of the company and Ceapro Developments Inc.

For accounting purposes, New Ceapro has been identified as the acquirer of the Company and accordingly, the amalgamation will be accounted for as a purchase.

The cost of the acquisition in the amount of $22,624,075 will be paid by way of issuance of 4,612,452 common shares of New Ceapro at $4.905 per share.

CERTIFICATE OF THE COMPANY

Dated: May 23, 1997

The foregoing constitutes full, true and plain disclosure of all material facts relating to the securities offered by this Prospectus as required by Part 7 of the *Securities Act* (British Columbia), by Part 8 of the *Securities Act* (Alberta), by Part XI of *The Securities Act*, 1988 (Saskatchewan), by Part VII of *The Securities Act* (Manitoba), by Part XV of the *Securities Act* (Ontario), by Section 63 of the *Securities Act* (Nova Scotia), by Part II of the *Securities Act* (Prince Edward Island), by Section 13 of the *Securities Act* (New Brunswick) and by Part XIV of the *Securities Act* (Newfoundland) and the respective regulations thereunder. This Prospectus does not contain any misrepresentation likely to affect the value or market price of the securities to be distributed within the meaning of the *Securities Act* (Quebec) and the regulations thereunder.

By: (Signed) ROBERT A. BINNENDYK
President and Chief Executive Officer

By: (Signed) DONALD A. MACLEAN
Executive Vice-President and Chief Financial Officer

On Behalf of the Board of Directors

By: (Signed) WILLIAM D. GRACE
Director

By: (Signed) NEIL W.W. GILLIAT
Director

CERTIFICATE OF THE UNDERWRITERS

Dated: May 23, 1997

To the best of our knowledge, information and belief, the foregoing constitutes full, true and plain disclosure of all material facts relating to the Offered Shares offered by this Prospectus as required by Part 7 of the *Securities Act* (British Columbia), by Part 8 of the *Securities Act* (Alberta), by Part XI of *The Securities Act*, 1988 (Saskatchewan), by Part VII of *The Securities Act* (Manitoba), by Part XV of the *Securities Act* (Ontario), by Section 63 of the *Securities Act* (Nova Scotia), by Part II of the *Securities Act* (Prince Edward Island), by Section 13 of the *Securities Act* (New Brunswick) and by Part XIV of the *Securities Act* (Newfoundland) and the respective regulations thereunder. To our knowledge, this Prospectus does not contain any misrepresentation likely to affect the value or market price of the Offered Shares to be distributed within the meaning of the *Securities Act* (Quebec) and the regulations thereunder.

YORKTON SECURITIES INC.

By: (Signed) CATHY R. STEINER

LÉVESQUE BEAUBIEN GEOFFRION INC.

By: (Signed) J. ANGUS WATT

The following includes the names of every person or company having an interest either directly or indirectly, to the extent of not less than 5% in the capital of:

YORKTON SECURITIES INC.: a wholly-owned subsidiary of Yorkton Holdings Limited; and

LÉVESQUE BEAUBIEN GEOFFRION INC.: a wholly-owned subsidiary of Lévesque, Beaubien and Company Inc., a majority-owned subsidiary of a Canadian chartered bank.