Q1 2010

UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE FIRST QUARTER ENDED MARCH 31, 2010

The MD&A provides commentary on the results of operations for the periods ended March 31, 2010 and 2009, the financial position as at March 31, 2010 and December 31, 2009, and the outlook of Ceapro Inc. ("Ceapro") based on information available as at May 5,2010. The following information should be read in conjunction with the unaudited interim consolidated financial statements as at March 31, 2010, and related notes thereto, which are prepared in accordance with Canadian generally accepted accounting principles (Canadian GAAP) for interim statements, as well as the audited consolidated financial statements and Management Discussion and Analysis (MD&A) for the year ended December 31, 2009. All comparative percentages are between the periods ended March 31, 2010 and 2009 and all dollar amounts are expressed in Canadian currency, unless otherwise noted. Additional information about Ceapro can be found on SEDAR at www.sedar.com.

FORWARD-LOOKING STATEMENTS

This MD&A offers an assessment of Ceapro's future plans and operations as at May 5, 2010, and contains forward-looking statements. By their nature, forward-looking statements are subject to numerous risks and uncertainties, including those discussed below. You are cautioned that the assumptions used in the preparation of forward-looking information, although considered reasonable at the time of preparation, may prove to be imprecise and, as such, undue reliance should not be placed on forward-looking statements. Actual results, performance, or achievements could differ materially from those expressed in, or implied by, these forward-looking statements. No assurance can be given that any of the events anticipated will transpire or occur, or if any of them do so, what benefits Ceapro will derive from them. The Company disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise.

Vision, Core Business, and Strategy

Ceapro Inc. (Ceapro) is incorporated under the Canada Business Corporations Act, and its wholly-owned subsidiaries, Ceapro Technology Inc., Ceapro Veterinary Products Inc., Ceapro Active Ingredients Inc., and Ceapro BioEnergy Inc. are incorporated under the Alberta Business Corporations Act. Ceapro USA Inc. is a wholly-owned subsidiary incorporated in the state of Nevada. Ceapro is a growth stage biotechnology company. Our primary business activities relate to the development and commercialization of natural and organic products for medical, cosmetic, and animal health industries using proprietary technology and natural, renewable resources.

Our products include:

- A commercial line of natural and organic active ingredients, including *beta glucan, avenanthramides (colloidal oat extract*), *oat powder, oat oil*, *oat peptides* and *lupin peptides* which are marketed to the personal care, cosmetic, and nutraceutical industries through our distribution partners and direct sales; and

- Veterinary therapeutic products, including an *oat shampoo*, an *ear cleanser,* and a *dermal complex/conditioner*, which are manufactured and marketed to veterinarians in Japan and Asia, through agreements with Daisen Sangyo Co. Ltd.

Other products and technologies are currently in the research and development or pre-commercial stage. These technologies include:

- *CeaProve®*, a diabetes test meal to screen pre-diabetes and to determine dosage levels for diabetes oral therapy, and to monitor the condition of pre-diabetics.

- *A drug delivery* platform using our *beta glucan* technology to deliver compounds for uses ranging from wound care and therapy, to skin care treatments that reduce the signs of aging; and

- An extension t*o the active ingredients* product range offering, through new plant extract products.

Our vision is to be a global leader in developing and commercializing products for the human and animal health markets through the use of proprietary technology and renewable resources. We act as innovator,

advanced processor and formulator in the development of new products. We deliver our technology to the market through distribution partnerships and direct sales efforts. Our strategic focus is in:

- Increasing sales and expanding markets for active ingredients;
- Developing and marketing additional high-value proprietary therapeutic products;
- Completing a clinical trial with IR2DX for *CeaProve®* to advance commercialization opportunities; and
- Advancing new partnerships and strategic alliances to develop new commercial active ingredients;

As a knowledge-based enterprise, we will also expand and strengthen our patent portfolio and build the necessary manufacturing infrastructure to become a global technology company.

Our business growth depends on our ability to access global markets through distribution partnerships. Our marketing strategy emphasizes providing technical support to our distributors and their customers to maximize the value of our technology and product utilization. Our vision and business strategy are supported by our commitment to the following core values:

- Developing and expanding partnerships and strategic alliances to expand our business;
- Enhancing the health of humans and animals;
- Discovering, extracting, and commercializing new, natural ingredients;
- Producing the highest quality work possible in products, science, and business; and
- Developing personnel through guidance, opportunities, and encouragement.

To support these objectives, we believe we have strong intellectual and human capital resources and we are developing a strong base of partnerships and strategic alliances to exploit our technology. The current economic environment provides challenges in obtaining financial resources to fully exploit opportunities. To fund our operations, Ceapro relies upon revenues primarily generated from the sale of active ingredients, and the proceeds of public and private offerings of equity securities, debentures, grants, and other income offerings.

Risks and Uncertainties

Biotechnology companies are subject to a number of risks and uncertainties inherent in the development of any new technology. General business risks include: uncertainty in product development and related clinical trials and validation studies; the regulatory environment, for example, delays or denial of approvals to market our products; the impact of technological change and competing technologies; the ability to protect and enforce our patent portfolio and intellectual property assets; the availability of capital to finance continued and new product development; and the ability to secure strategic partners for late stage development, marketing, and distribution of our products. To the extent possible, we pursue and implement strategies to reduce or mitigate the risks associated with our business.

The Company's consolidated financial statements for the quarter ended March 31, 2010 have been prepared on a going concern basis which assumes that the Company will continue in operation for the foreseeable future and accordingly will be able to realize its assets and discharge liabilities in the normal course of operations. Since inception, the Company has accumulated net losses, negative operating cash flow, and has not yet achieved consistent profitability. The Company has relied on the proceeds of public and private offerings of equity securities and debentures, debt, and other income offerings to support the Company's operations. The Company's ability to continue as a going concern is dependant on obtaining additional financial capital, achieving profitability, and generating positive cash flow. There can be no

assurance that the Company will be able to access capital when needed, achieve profitability, or generate positive cash flow.

The consolidated financial statements for the period ended March 31, 2010 do not reflect the adjustments that might be necessary to the carrying amount of reported assets, liabilities, and revenues and expenses, and the balance sheet classification used if the Company were unable to continue operations. Such adjustments could be material.

The Company has exposure to credit, liquidity, and market risk as follows:

a) Credit risk:

The Company makes sales to customers that are well-established and well-financed within their respective industries. There is always a risk relating to the financial stability of customers and their ability to pay, but management views this risk as minimal. Approximately 88% of accounts receivable are due from two customers at March 31, 2010 and all accounts receivable are current. The Company mitigates its exposure to credit risk on its cash balances by maintaining its bank accounts with a Canadian Chartered Bank. The Company's maximum exposure to credit risk on its cash and accounts receivable is the carrying values of these items at March 31, 2010, a total of $357,890.

b) Liquidity risk:
Liquidity risk relates to the risk that the Company will encounter difficulty in meeting its financial obligations. The long-term debt matures in January 2013. It is the intention of the Company that refinancing will be negotiated at that time should it be required. The Company may be exposed to liquidity risks if it is unable to collect its trade accounts receivable balances in a timely manner, which could in turn impact the Company's long-term ability to meet commitments under its current facilities. Royalties are in arrears as they have not been paid since the second quarter of 2008 due to the limited financial resources of the Company. In order to manage this liquidity risk, the Company regularly reviews its aged accounts receivable listing to ensure prompt collections. The Company regularly reviews its cash availability and whenever conditions permit, the excess cash is deposited in short-term interest bearing instruments to generate revenue while maintaining liquidity. There is no assurance that the Company will obtain sufficient funding to execute its strategic business plan.

Cash outflows related to financial liabilities are outlined in the table below.

	0 - 1 year	1 - 3 years	Total
Accounts payable and accrued liabilities	$ 939,295	$ -	$ 939,295
Long term debt, including interest	208,608	1,291,599	1,500,207
Royalties payable	784,824	-	784,824
Convertible debentures Including interest	40,000	540,000	580,000
Total	$ 1,972,727	$ 1,831,599	$3,804,326

c) Market risk:
Market risk is comprised of interest rate risk and foreign currency risk. The Company's exposure to market risk is as follows:

i) Foreign currency risk

Foreign currency risk arises from the fluctuations in foreign exchange rates and the degree of volatility of these rates relative to the Canadian dollar.

The Company is exposed to foreign currency fluctuations because a substantial portion of sales are denominated in U.S. dollars. A one percent change in the Canadian/U.S. dollar exchange rate will impact revenues by approximately $45,000 annually based upon estimated 2010 U.S. dollar sales of $4,500,000. Estimated sales were assumed by annualizing sales during the quarter. The Company does purchase some materials and services in U.S. dollars and to a lesser extent Euros. This amount will vary by product sold.

The following table summarizes the impact of a 1% change in the foreign exchange rates of the Canadian dollar against the US dollar (USD) on the financial assets and liabilities of the Company.

	Carrying Amount (USD)	Foreign Exchange Risk (USD)	
		-1%	+1%
		Earnings & Equity	Earnings & Equity
Financial assets			
Accounts receivable	$247,307	$ 2,473	$ (2,473)
Financial liabilities			
Accounts payable and accrued liabilities	$349,684	$ (3,497)	$ 3,497
Total increase (decrease)		$ (1,024)	$ 1,024

The carrying amount of accounts receivable and accounts payable and accrued liabilities in USD represents the Company's exposure at March 31, 2010.

ii) Interest rate
The Company has minimal interest risk because its long-term debt is a fixed rate of 5.49%. However, in the event of a default, the rate would increase to 7.49% and result in an increase in the required monthly principal and interest payment by $1,541.

Ceapro's share price is subject to equity market price risk, which may result in significant speculation and volatility of trading due to the uncertainty inherent in the Company's business and the technology industry. There is a risk that future issuance of common shares may result in material dilution of share value, which may lead to further decline in share price. The expectations of securities analysts and major investors about our financial or scientific results, the timing of such results, and future prospects, could also have a significant effect on the future trading price of Ceapro's shares.

A variety of factors will affect Ceapro's future growth and operating results, including the strength and demand for the Company's products, the extent of competition in our markets, the ability to recruit and retain qualified personnel, and its ability to raise capital.

Ceapro's financial statements are prepared within a framework of Canadian GAAP selected by management and approved by the Board of Directors. The assets, liabilities, revenues, and expenses reported in the Company's consolidated financial statements depend to varying degrees on estimates made by management. An estimate is considered a critical accounting estimate if it requires management to make assumptions about matters that are highly uncertain and if different estimates that could have been used would have a material impact. The significant areas requiring the use of management estimates relate to provisions made for inventory valuation, amortization of property and equipment, the assumptions used in determining stock-based compensation, the discount rate used in determining the employee future benefits obligation, and the interest rate used to value convertible debentures. These estimates are based on historical experience and reflect certain assumptions about the future that we believe to be both reasonable and conservative. Actual results could differ from those estimates. Ceapro continually evaluates the estimates and assumptions.

Future Accounting Pronouncements

In 2006, Canada's Accounting Standards Board ("AcSB") ratified a strategic plan that will result in Canadian GAAP, as used by public entities, being converged with International Financial Reporting Standards ("IFRS") over a transitional period. In February 2008, the AcSB confirmed January 1, 2011 as the date that Canadian public entities will be required to start reporting under IFRS. Companies were required to provide qualitative disclosure on the key elements and timing of their transition plan to IFRS no later than their 2008 annual Management Discussion and Analysis. Qualitative disclosure of the impact of the transition was required in

companies' 2009 interim and annual Management Discussion and Analysis. Comparative financial information for 2010 will be required when companies begin reporting 2011 results under IFRS.

During 2010 the Company will prepare financial statements under Canadian GAAP and after completion and release of these financial statements, will produce financial statements for the same period under IFRS. The financial statements produced under IFRS will be for internal use only in 2010 but in 2011 they will be released as comparative period financial statements.

Consolidated Financial Statements

CICA Handbook Sections 1601, *Consolidated Financial Statements*, and 1602, *Non-Controlling Interests* will replace the former Section 1600, *Consolidated Financial Statements.* These new Sections are effective for interim and annual consolidated financial statements for fiscal years beginning on or after January 1, 2011 but with earlier adoption permitted and provide the Canadian equivalent to International Financial Reporting Standard IAS 27, *Consolidated and Separate Financial Statements*. The new standards are not expected to have a material effort on the Company's financial statements.

Business Combinations

CICA Handbook Section 1582, *Business Combinations,* will replace the former Section 1581, *Business Combinations.* The new Section is effective for acquisitions in fiscal years beginning on or after January 1, 2011 but with earlier adoption permitted and provides the Canadian equivalent to IFRS 3, *Business Combinations*. The new standard is not expected to have a material effect on the Company's financial statements.

Results of Operations

Three Months and Quarter Ended March 31, 2010, 2009, and 2008

SELECTED INFORMATION

$000s except per share data	**2010**	2009	2008
Total revenues	**1,155**	1,502	852
Income (loss) from operations	**94**	233	(437)
Net income (loss)	**(49)**	103	(609)
Basic income (loss) per share	**(0.00)**	0.00	(0.01)
Diluted income (loss) per share	**(0.00)**	0.00	(0.01)

The first three months of fiscal 2010 saw a decrease in revenues of $347,000 or 23%. The sales of active ingredients to the personal care industry decreased by $92,000 or 7% with higher sales volumes offset to a larger degree by a lower US dollar exchange rate versus the Canadian dollar. Sales of veterinary premixes to the animal health industry decreased by $255,000 as there were no sales to this sector in the first quarter. The timing of orders for the animal health industry can often vary between quarterly reporting periods.

There was a net loss in the first quarter of $49,000 compared to net income of $103,000 in the same period in 2009. Income from operations was $94,000 compared with $233,000 in 2009 largely due to a lower US dollar exchange rate that reduced Canadian dollar sales, the reduction of sales to the animal health sector, and a product sales mix that had a higher proportion of sales that were lower margin products in 2010 versus 2009, partially offset by lower operating and royalty costs. Other income was $10,000 lower in the first quarter of 2010 versus 2009 primarily due to foreign exchange losses.

Revenue

$000s	**2010**	2009	Change
Total sales	**1,155**	1,502	**-23%**

PRODUCT SALES

Total sales volume to the personal care industry in the first quarter of 2010 was higher than 2009 but due to a sharply lower US dollar exchange rate versus the Canadian dollar the sales revenue was lower.

Sales decreased to the animal health industry by $255,000 as there were no sales in the first quarter of 2010. The timing of orders for the animal health industry will vary from year to year.

Expenses

COST OF GOODS SOLD AND GROSS MARGINS

$000s	**2010**	2009	Change
Sales	**1,155**	1,502	
Cost of goods sold	**692**	650	
Gross margin	**463**	852	-46%
Gross margin %	**40%**	57%	

Cost of goods sold is comprised of the direct raw materials required for the specific formulation of products, as well as direct labour, quality control, packaging, plant costs, transportation costs, and the amortization of manufacturing equipment. Aside from plant rent, amortization, labour, plant, and quality control related expenses, the majority of costs are for raw materials which are variable in relation to the volume of product produced or shipped.

Margins were significantly lower in 2010 due to the lower value of the US dollar versus the Canadian dollar, the reduction of sales to the animal health sector, and a higher proportion of sales in 2010 of lower margin products versus 2009.

GENERAL AND ADMINISTRATION

$000s	**2010**	2009	Change
Salaries and benefits	**89**	108	
Board of Directors compensation	**44**	38	
Investor relations costs	**6**	35	
Insurance costs	**28**	26	
Legal fees	**21**	32	
Consulting fees	**42**	43	
Other	**61**	108	
Total general and administration expenses	**291**	390	-25%

General and administration expenses (G&A) for the first quarter of 2010 decreased $99,000 or 25% as the Company reduced costs and applied strict cash control measures. Salaries and benefits decreased as a result of staff reductions. Investor relations decreased $29,000 as a result of the elimination of an external investor relations consultant and fewer news releases. Legal costs decreased from 2009 by $11,000

primarily because 2009 had costs related to the settlement of litigation issues. Travel, conference, and course costs also decreased from 2009 levels.

SALES AND MARKETING

$000s	**2010**	2009	Change
Salaries and benefits	**-**	38	
Other	**21**	22	
Total sales and marketing	**21**	60	-65%

Sales and marketing expenses decreased by 65% largely due to staff reductions for marketing activities.

ROYALTIES

$000s	**2010**	2009	Change
Royalty interest units	**26**	155	-83%
Recognition of deferred royalty revenue	**(13)**	(17)	
Net royalty expense	**13**	**138**	-91%

As at March 31, 2010, royalty investors receive royalties equal to 2.29% (2009 – 10.33%) of revenues from product sales and royalty, license, and product development fees of active ingredients and veterinary therapeutic products, to a maximum of twice the amount invested. AVAC receives royalties of up to 2.5% to 5% of revenues from eligible product sales, to a maximum of one and a half to twice the amount invested. Royalty expense throughout 2010 will vary directly with fluctuations in product sales, royalty, license, and product development fees, product sales mix, and any new royalty interest offerings or AVAC investments that may be completed. The Company recognizes deferred royalty revenue for royalty interest units issued in 2005 at a rate of one half times the amount of royalty interest expense. As at March 31, 2010 the Company is in arrears$784,824 to AVAC Ltd. and other royalty holders as the Company has not been able to pay royalties accrued since the second quarter of 2008 due to limited financial resources.

INTEREST & AMORTIZATION

$000s	**2010**	2009	Change
Interest expense	**18**	20	(10%)
Amortization	**9**	10	-10%

Interest costs declined as a result of a lower principal balance of long-term debt from the previous year.

For the three months ended March 31, 2010 the total amortization of $89,000 (2009- $88,000) was allocated as follows: $9,000 (2009- $10,000) to amortization expense, $35,000 to inventory (2009- nil), and $45,000 (2009- $78,000) to cost of goods sold.

Other Income (Expenses)

RESEARCH AND PRODUCT DEVELOPMENT

$000s	**2010**	2009	Change
Salaries and benefits	**86**	94	
Regulatory and patent	**15**	29	
Other	**20**	4	
	121	127	-5%
Product development - *CeaProve®*	**17**	9	
Research and product development expenditures	**138**	136	1%

Research and product development expenses (not including CeaProve®) decreased 5% primarily due to an decrease in salary and benefit costs and regulatory and patents offset by an increase in other expenditures associated with research projects. Costs related to manufacturing scale up resulted in an increase of $8,000 in costs for CeaProve®. As a result net research and product development expenditures decreased by 1%.

OTHER INCOME (EXPENSE)

Other income (expense) is comprised of $3,000 in foreign exchange losses and $1,000 of other expenses during the period ended March 31, 2010. During the period ended March 31, 2009, the Company recognized foreign exchange gains of $5,000 and $7,000.

QUARTERLY INFORMATION

The following selected financial information is derived from Ceapro's unaudited quarterly financial statements for each of the last eight quarters, all of which cover periods of three months.

	2010	**2009**				2008		
$000s except per share data	**Q1**	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Total revenues	**1,155**	395	1,261	1,212	1,502	1,049	871	1,456
Net income (loss)	**(49)**	(634)	(4)	466	103	(1,415)	(488)	1,087
Basic income (loss) per share	**(0.00)**	(0.01)	(0.00)	0.01	(0.00)	(0.04)	(0.01)	(0.02)
Diluted income (loss) per share	**(0.00)**	(0.01)	(0.00)	0.01	(0.00)	(0.04)	(0.01)	(0.02)

Ceapro's quarterly sales and results can fluctuate due to variations in the timing of product sales and are largely impacted by general economic conditions.

Liquidity and Capital Resources

Ceapro relies upon revenues generated from the sale of active ingredients and veterinary therapeutic products, the proceeds of public and private offerings of equity securities and debentures, and income offerings to support the Company's operations.

Total common shares issued and outstanding as at May 5, 2010 were 51,710,063 (April 21, 2009 – 47,050,063). In addition, 2,485,000 stock options (April 21, 2009 – 1,810,000) were outstanding that are potentially convertible into an equal number of common shares at various prices. Shareholders' deficiency of $1,399,000 at March 31, 2010 represented an increase from a shareholders' deficiency of $1,373,000 at December 31, 2009.

Ceapro's working capital position was ($1,254,000) at March 31, 20010, an improvement from ($1,273,000) at December 31, 2009.

To meet future requirements, Ceapro may raise additional capital through some or all of the following methods: public or private equity or debt financing, income offerings, capital leases, collaborative and licensing agreements, and joint venture or partnership financings. However, there is no assurance of obtaining additional financing through these arrangements on acceptable terms, if at all. The ability to generate new capital will depend on external factors, many beyond the Company's control, as outlined in the Risks and Uncertainties section. Should sufficient capital not be raised, Ceapro may have to delay, reduce the scope of, eliminate, or divest one or more of its discovery, research, or development technology or programs, any of which could impair the value of the business.

The Company is currently reviewing the options available to raise additional capital.

Related Party Transactions

During the first quarter of 2010, $5,341 (2009 - $19,165) of royalties were earned by employees and directors from their investment in previous Ceapro royalty offerings. As at March 31, 2010, $89,922 (2009 - $65,137) of royalties were payable to employees and directors. Consulting fees of $37,500 (2009 - $37,500) were earned by a company controlled by a director during the quarter ending March 31, 2010. During the first quarter of 2010 employees and directors earned $900 of interest on convertible debentures. As at March 31, 2010 employees and directors owned $45,900 of convertible debentures and accrued interest. As at March 31, 2010, consulting fees of $37,500 (2009 – $25,000) were payable to a company controlled by a director and included in accounts payable and accrued liabilities. These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

Contingencies

(a) Ceapro Inc. commenced litigation against a number of defendants in 2002 in the Court of Queen's Bench of Saskatchewan (the "Saskatchewan Claim"). The defendants against whom the case proceeded to trial were the Government of Saskatchewan, Saskatchewan Government Growth Fund Ltd. (SGGF), Saskatchewan Government Growth Fund Management Corporation (SGGFMC), Gary K. Benson, Janice MacKinnon, and Can-Oat Milling Products Inc. The Saskatchewan Claim raised numerous causes of action against certain of the defendants including a claim against all based in civil conspiracy. Ceapro claimed damages in excess of $19 million for loss of its investment in Canamino Inc., plus additional damages for loss of goodwill and other losses and for other relief.

During the year ended December 31, 2008, all claims related to the Saskatchewan Claim were dismissed. During the quarter end March 31, 2009 the Company and defendants reached an agreement with respect to the settlement of the appeal proceedings and the legal costs payable to the defendants. The Company agreed to consent to the dismissal of all appeal proceedings and to pay to the defendants $705,000 in legal costs which were payable in four equal quarterly installments of $176,250 commencing March 31, 2009. Payments were secured by a general security agreement against all of the Company's present and after acquired property subordinated to the general security agreement already in place on the Company's long-term debt. The settlement agreement was fully satisfied by the Company in 2009 and there is no further financial exposure to the Company.

During the year ended December 31, 2008 the Company recorded a provision for disputed legal fees in the amount of $741,283. In 2009 the Company recorded a recovery of $426,300 of the previously disputed legal fees as one legal firm advised the Company that it would be not pursuing their claim. The remaining disputed balance of $314,983 is recorded as a liability on the balance sheet as SGGF legal fees.

(b) In the normal course of operations, the Company may be subject to litigation and claims from customers, suppliers, and former employees. Management believes that adequate provisions have been recorded in the accounts where required. Although it is not possible to estimate the extent of potential costs, if any, management believes that the ultimate resolution of such contingencies would not have a material adverse effect on the financial position of the Company.

Outlook

Results obtained in the first quarter of 2010 are encouraging and lead Ceapro to believe that the tough economic times experienced in the personal care industry may be behind us. Ceapro is particularly pleased with the tremendous improvements achieved at the production facility over the last fifteen months that will enable Ceapro to deliver higher volumes of existing products while developing new ones. Ceapro began evaluating other extraction technologies during the first quarter of 2010 and this is expected to provide opportunities to develop new products.

Ceapro's marketing and business development efforts deployed over the last nine months are also starting to pay off. Several new potential customers are assessing applications for Ceapro's innovative active ingredients. During the first quarter of 2010 Ceapro received confirmation that its lupin peptide will be incorporated into a major personal care brand and this has been confirmed through the receipt of commercial volume purchase orders subsequent to the end of the quarter. Ceapro's goal is to drive revenue significantly higher through increased sales of current products and the development and commercialization of new products. Partnerships are expected to play a major role in achieving this goal.

Partnerships are also expected to provide financial assistance to develop new products and rejuvenate some existing products by developing new in-vitro and ex-vivo dermatological data. These studies will include investigating relevant genetic markers that are associated with inflammation skin diseases, dermal penetration of actives and protection of structural skin proteins. Collaboration is also planned with state of the art research facilities and world-class scientists not normally available to smaller companies like Ceapro.

Over the last two years, Ceapro has come a long way through a decline, turn over, and stabilization cycle. Ceapro is now very confident that it has the key ingredients in place for success and that the foundation has been laid to experience strong growth required for significant value creation.

While 2010 appears to be a promising year as the economy begins to rebound, Ceapro will do its utmost to reap the benefits from everyone's current and past efforts to deliver the best results possible while continuing to operate in a measured and responsible manner.

Additional Information

Additional information relating to Ceapro Inc., including a copy of the Company's Annual Consolidated Financial Statements and Proxy Circular, can be found on SEDAR at www.sedar.com.

Unaudited Consolidated Financial Statements for the First Quarter Ended March 31, 2010

Ceapro Inc.

CEAPRO INC.
Consolidated Balance Sheets

	March 31 2010 Unaudited	December 31 2009 Audited
ASSETS		
CURRENT ASSETS		
Cash	**$ 87,340**	$ 115,502
Accounts receivable	**270,550**	151,144
Inventories	**553,295**	516,821
Prepaid expenses and deposits	**74,651**	62,309
	985,836	845,776
LICENSE	**26,250**	27,000
PROPERTY AND EQUIPMENT (net of accumulated amortization)	**1,814,952**	1,897,878
	$ 2,827,038	$ 2,770,654
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	**$ 939,295**	$ 846,538
Current portion of deferred royalty revenue	**60,000**	60,000
Current portion of long-term debt	**140,673**	138,806
Currrent portion of royalties payable	**784,824**	758,436
SGGF legal fees	**314,983**	314,983
	2,239,775	2,118,763
DEFERRED ROYALTY REVENUE	**207,228**	220,422
EMPLOYEE FUTURE BENEFITS OBLIGATION	**140,410**	136,786
LONG-TERM DEBT	**1,191,550**	1,227,426
CONVERTIBLE DEBENTURES	**447,500**	440,000
ROYALTIES PAYABLE	**-**	-
	4,226,463	4,143,397
SHAREHOLDERS' DEFICIENCY		
SHARE CAPITAL	**5,479,202**	5,479,202
EQUITY COMPONENT OF CONVERTIBLE DEBENTURES	**60,000**	60,000
CONTRIBUTED SURPLUS	**501,095**	478,945
DEFICIT	**(7,439,722)**	(7,390,890)
	(1,399,425)	(1,372,743)
	$ 2,827,038	$ 2,770,654

Contingencies (note 9)

See accompanying notes

CEAPRO INC.
Consolidated Statements of Net Income (Loss) and Comprehensive Income (Loss) and Deficit
Unaudited

	Three Months and Quarter Ended March 31	
	2010	2009
Revenue		
Sales	**$ 1,154,862**	$ 1,501,909
Cost of goods sold	**692,118**	650,409
Gross margin	**462,744**	851,500
Expenses		
General and administration	**290,673**	390,322
Royalties	**13,194**	138,027
Sales and marketing	**21,169**	60,300
Amortization	**8,528**	9,928
Interest on convertible debenture	**10,000**	-
Accretion on convertible debenture	**7,500**	-
Interest on long-term debt	**18,144**	19,914
	369,208	618,491
Income from operations	**93,536**	233,009
Other income (expenses)		
Research and product development	**(138,128)**	(135,572)
Other income (expenses)	**(4,240)**	5,339
	(142,368)	(130,233)
Comprehensive income(loss) before income taxes	**(48,832)**	102,776
Income Taxes		
Current	**22,000**	57,000
Reduction as a result of applying non-capital losses forward against the current period's taxable income	**(22,000)**	(57,000)
NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD	**(48,832)**	102,776
Deficit, beginning of period	**(7,390,890)**	(7,321,541)
Deficit, end of period	**$ (7,439,722)**	$ (7,218,765)
Net income (loss) per share:		
Basic	**$ (0.00)**	$ 0.00
Diluted	**$ (0.00)**	$ 0.00
Weighted average number of common shares outstanding	**51,710,063**	47,050,063

See accompanying notes

CEAPRO INC.
Consolidated Statements of Cash Flows
Unaudited

	Three Months and Quarter Ended March 31	
	2010	2009
Operating Activities		
Net income (loss) for the period	**$ (48,832)**	$ 102,776
Adjustments to reconcile net income (loss) to cash provided by operating activities		
Amortization	**88,922**	88,294
Employee future benefits obligation	**3,624**	(24,792)
Recognition of deferred royalty revenue	**(13,194)**	(17,160)
Accretion on convertible debenture	**7,500**	-
Stock based compensation	**22,150**	14,888
	60,170	164,006
Changes in Non-Cash Working Capital Items		
Accounts receivable	**(119,406)**	(40,302)
Inventories	**(36,474)**	17,752
Prepaid expenses and deposits	**(12,342)**	(500)
Accounts payable and accrued liabilities	**92,757**	(69,422)
SGGF legal fees	**-**	(196,250)
	(15,295)	(124,716)
Investing Activities		
Purchase of property and equipment	**(5,246)**	(7,169)
Financing Activities		
Repayment of long-term debt	**(34,009)**	(32,239)
Increase in royalties payable	**26,388**	155,187
	(7,621)	122,948
Increase (decrease) in cash	**(28,162)**	(8,937)
Cash at beginning of period	**115,502**	16,525
Cash at end of period	**$ 87,340**	$ 7,588
Supplementary information		
Interest paid	**$ 18,144**	$ 19,914

See accompanying notes

1. **Accounting Principles for Interim Financial Statements and Going Concern**

The accompanying unaudited interim consolidated financial statements have been prepared by the Company in accordance with Canadian generally accepted accounting principles ("Canadian GAAP") for interim financial statements. The accounting principles and methods of computation adopted in these financial statements are the same as those of the audited financial statements for the year ended December 31, 2009.

Omitted from these statements are certain information and note disclosures normally included in the annual financial statements prepared in accordance with Canadian GAAP. The financial statements and notes presented should be read in conjunction with the audited financial statements for the year ended December 31, 2009.

The consolidated financial statements have been prepared on a going concern basis which assumes that the Company will continue in operation for the foreseeable future and accordingly will be able to realize its assets and discharge liabilities in the normal course of operations. Since inception, the Company has accumulated net losses, negative operating cash flow and has not yet achieved consistent profitability. The Company has relied on the proceeds of public and private offerings of equity securities and debentures, debt, and other income offerings to support the Company's operations. The Company's ability to continue as a going concern is dependant on obtaining additional financial capital, achieving profitability, and generating positive cash flow. There can be no assurance that the Company will be able to access capital when needed, achieve profitability, or generate positive cash flow.

These financial statements do not reflect the adjustments that might be necessary to the carrying amount of reported assets, liabilities and revenues and expenses and the balance sheet classification used if the Company were unable to continue operations. Such adjustments could be material.

2. **Future**

IFRS

In 2006 , Canada's Accounting Standards Board ("AcSB") ratified a strategic plan that will result in Canadian GAAP, as used by public entities, being converged with International Financial Reporting Standards ("IFRS") over a transitional period. In February 2008, the AcSB confirmed January 1, 2011 as the date that Canadian public entities will be required to start reporting under IFRS. Companies were required to provide qualitative disclosure on the key elements and timing of their transition plan to IFRS no later than their 2008 annual Management Discussion and Analysis. Qualitative disclosure of the impact of the transition was required in companies' 2009 interim and annual Management Discussion and Analysis. Comparative financial information for 2010 will be required when companies begin reporting 2011 results under IFRS.

During 2010 the Company will prepare its financial statements under Canadian GAAP and after completion and release of these financial statements, will produce financial statements for the same periods under IFRS. The financial statements produced under IFRS will be for internal use only in 2010 but in 2011 they will be released as comparative period financial statements.

2. Future Accounting Pronouncements (continued)

Consolidated financial statements

CICA Handbook Sections 1601, *Consolidated Financial Statements*, and 1602, *Non-Controlling Interest* will replace the former Section 1600, *Consolidated Financial Statements*. These new Sections are effective for interim and annual consolidated financial statements for fiscal years beginning on or after January 1, 2011 but with earlier adoption permitted and provide the Canadian equivalent to International Financial Reporting Standard ISA 27, *Consolidated and Separate Financial Statements*. The new standards are not expected to have a material effect on the Company's financial statements.

Business Combinations

CICA Handbook Section 1582, *Business Combinations* will replace the former Section 1581, *Business Combinations.* The new Section is effective for acquisitions in fiscal years beginning on or after January 1, 2011 but with earlier adoption permitted and provides the Canadian equivalent to IFRS 3, *Business Combinations.* The new standard is not expected to have a material effect on the Company's financial statements.

3. Inventories

	March 31 2010 (unaudited)	December 31 2009 (audited)
Raw materials	$ 194,135	$ 218,604
Work in progress	257,079	135,026
Finished goods	102,081	163,191
	$ 553,295	$ 516,821

Inventories expensed in cost of goods sold during the quarter ended March 31, 2010 is $682,921 (quarter ended March 31, 2009 - $635,096).

4. Share Capital

(a) Authorized

Unlimited number of Class A voting common shares
Unlimited number of Class B non-voting common shares

(b) Issued

Class A common shares

	Number of Shares	**Amount**
Balance, March 31, 2010 and December 31, 2009	51,710,063	$ 5,479,202

(c) Stock options outstanding are as follows:

		Number of Options Outstanding	
Year of Expiration	**Exercise Price**	**March 31 2010 (unaudited)**	December 31 2009 (audited)
2014	$0.13	**900,000**	900,000
2013	$0.12	**660,000**	660,000
2013	$0.25	**210,000**	210,000
2012	$0.28	**390,000**	390,000
2012	$0.30	**100,000**	100,000
2011	$0.30	**75,000**	75,000
2011	$0.27	**150,000**	150,000
		2,485,000	2,485,000

5. **Employee Future Benefits Obligation**

	Three Months Ended March 31 2010 (unaudited)	Year Ended December 31 2009 (audited)
Unfunded balance, beginning of period	**$ 136,786**	$ 304,012
Benefits paid	**-**	(187,000)
Current service cost	**2,191**	14,871
Interest costs on accrued obligation	**1,433**	4,903
Unfunded balance, end of period	**$ 140,410**	$ 136,786

6. **Related Party Transactions**

	Three Months Ended March 31 2010	2009
Royalties earned by employees and directors	**$ 5,341**	$ 19,165
Royalties payable to employees and directors	**89,922**	65,137
Convertible debentures and accrued interest owned by employees and directors	**45,900**	-
Interest earned by employees and directors	**900**	-
Consulting fees earned by a company controlled by a director	**37,500**	37,500
Consulting fees payable to a company controlled by a director in accounts payable and accrued liabilities	**37,500**	25,000

These transactions are in the normal course of operations and are measured at the exchange amount which is the amount of consideration established and agreed to by the related parties.

7. **Other Income (Expenses)**

Other income (expenses) is comprised as follows:

	Three Months Ended March 31 2010	2009
Interest and other income (expenses)	**$ (1,078)**	$ 141
Foreign exchange gains (losses)	**(3,162)**	5,198
	$ (4,240)	$ 5,339

8. **Segmented Information**

The Company operates in one industry segment, which is the active ingredient product technology industry. The majority of the revenue is derived from sales in North America. All the assets of the Company, which support the revenues of the Company, are located in Canada. The distribution of revenue by location of customer is as follows:

	Three Months Ended March 31 2010	2009
United States	**$ 785,033**	$ 906,374
Other	**369,509**	558,475
Canada	**320**	37,060
	$ 1,154,862	$ 1,501,909

9. Contingencies

(a) Ceapro Inc. commenced litigation against a number of defendants in 2002 in the Court of Queen's Bench of Saskatchewan (the "Saskatchewan Claim"). The defendants against whom the case proceeded to trial were the Government of Saskatchewan, Saskatchewan Government Growth Fund Ltd. (SGGF), Saskatchewan Government Growth Fund Management Corporation (SGGFMC), Gary K. Benson, Janice MacKinnon, and Can-Oat Milling Products Inc. The Saskatchewan Claim raised numerous causes of action against certain of the defendants including a claim against all based in civil conspiracy. Ceapro claimed damages in excess of $19 million for loss of its investment in Canamino Inc., plus additional damages for loss of goodwill and other losses and for other relief.

During the year ended December 31, 2008, all claims related to the Saskatchewan Claim were dismissed. During the quarter end March 31, 2009 the Company and defendants reached an agreement with respect to the settlement of the appeal proceedings and the legal costs payable to the defendants. The Company agreed to consent to the dismissal of all appeal proceedings and to pay to the defendants $705,000 in legal costs which were payable in four equal quarterly installments of $176,250 commencing March 31, 2009. Payments were secured by a general security agreement against all of the Company's present and after acquired property subordinated to the general security agreement already in place on the Company's long-term debt. The settlement agreement was fully satisfied by the Company in 2009 and there is no further financial exposure to the Company.

During the year ended December 31, 2008 the Company recorded a provision for disputed legal fees in the amount of $741,283. In 2009 the Company recorded a recovery of $426,300 of the previously disputed legal fees as one legal firm advised the Company that it would not be pursuing their claim. The remaining disputed balance of $314,983 is recorded as a liability on the balance sheet as SGGF legal fees.

(b) In the normal course of operations the Company may be subject to litigation and claims from customers, suppliers and former employees. Management believes that adequate provisions have been recorded in the accounts where required. Although it is not possible to estimate the extent of potential costs, if any, management believes that the ultimate resolution of such contingencies would not have a material adverse effect on the financial position of the Company.

10 Financial Instruments

The Company has designated its financial instruments as follows: cash is classified as held-for-trading, which is measured at fair value; accounts receivable are classified as loans and receivables which are measured at amortized cost; accounts payable and accrued liabilities, long-term debt, royalties payable, the SGGF legal fees and convertible debentures are classified as other liabilities and are also measured at amortized cost. The fair value of accounts receivable, accounts payable, the current portion of long term debt, royalties payable and the SGGF legal fees approximate their carrying amount due to their short-term nature. The fair values of long-term debt and convertible debentures are estimated to approximate their carrying value because the interest rates do not differ significantly from current interest rates for similar types of borrowing arrangements. The Company accounts for regular-way purchases and sales of financial assets using trade date accounting, and transaction costs on financial instruments are recognized in income in the period.

10 Financial Instruments (continued)

The Company has exposure to credit, liquidity and market risk as follows:

a) Credit risk:

The Company makes sales to customers that are well-established and well-financed within their respective industries. There is always a risk relating to the financial stability of customers and their ability to pay, but management views this risk as minimal. Approximately 88% of accounts receivable are due from two customers and all accounts receivable are current. The Company mitigates its exposure to credit risk on its cash balances by maintaining its bank accounts with a Canadian Chartered Bank. The Company's maximum exposure to credit risk on its cash and accounts receivable is the carrying values of these items at March 31, 2010, a total of $357,890.

b) Liquidity risk:

Liquidity risk relates to the risk that the Company will encounter difficulty in meeting its financial obligations. The long-term debt matures in January 2013. It is the intention of the company that refinancing will be negotiated at that time should it be required. The Company may be exposed to liquidity risks if it is unable to collect its trade accounts receivable balances in a timely manner, which could in turn impact the Company's long-term ability to meet commitments under its current facilities. Royalties are in arrears as they have not been paid since the second quarter of 2008 due to the limited financial resources of the Company. In order to manage this liquidity risk, the Company regularly reviews its aged accounts receivable listing to ensure prompt collections. The Company regularly reviews its cash availability and whenever conditions permit, the excess cash is deposited in short-term interest bearing instruments to generate revenue while maintaining liquidity. There is no assurance that the Company will obtain sufficient funding to execute its strategic business plan.

The following are the contractual maturities of the Company's financial liabilities and obligations.

	0 - 1 year	1 - 3 years	Total
Accounts payable and accrued liabilities	$ 939,295	$ -	$ 939,295
Long term debt, including interest	208,608	1,291,599	1,500,207
Royalties payable	784,824	-	784,824
Convertible Debentures including interest	40,000	540,000	580,000
Total	$ 1,972,727	$ 1,831,599	$ 3,804,326

c) Market risk

Market risk is comprised of interest rate risk and foreign currency risk. The Company's exposure to market risk is as follows:

i) Foreign currency risk

Foreign currency risk arises from the fluctuations in foreign exchange rates and the degree of volatility of these rates relative to the Canadian dollar.

The Company is exposed to foreign currency fluctuations because a substantial portion of sales are denominated in U.S. dollars. A one percent change in the Canadian/U.S. dollar exchange rate will impact revenues by approximately $45,000 annually based upon estimated 2010 U.S. dollar sales of $4,500,000. Estimated sales were assumed by annualizing sales during the quarter. The Company does purchase some materials and services in U.S. dollars and to a lesser extent Euros. This amount will vary by product sold.

10 Financial Instruments (continued)

The following table summarizes the impact of a 1% change in the foreign exchange rates of the Canadian dollar against the US dollar (USD) on the financial assets and liabilities of the Company.

	Carrying Amount (USD)	Foreign Exchange Risk (USD)	
		-1%	1%
		Earnings &	Earnings &
Financial assets			
Accounts receivable	$ 247,307	$ 2,473	$ (2,473)
Financial liabilities			
Accounts payable and	349,684	$ (3,497)	$ 3,497
Total increase(decrease)		$ (1,024)	$ 1,024

The carrying amount of accounts receivable and accounts payable and accrued liabilities in USD represents the Company's exposure at March 31, 2010.

ii) Interest rate risk

The Company has minimal interest rate risk because its long-term debt is a fixed rate of 5.49%. However, in the event of a default, the rate would increase to 7.49% and result in an increase in the required monthly principal and interest payment by $1,541.

11. Capital Disclosures

The Company considers its capital to be working capital and its shareholder deficiency. The Company's objectives in managing capital is to ensure a sufficient liquidity position to finance its manufacturing operations, research and development activities, administration and marketing expenses, working capital and overall capital expenditures, including those associated with patents and trademarks. The Company makes every effort to manage its liquidity to minimize dilution to its shareholders, when possible.

The Company has funded its activities through public offerings and private placements of common shares, royalty offerings, loans, convertible debentures, and grant contributions.

The Company is not subject to externally imposed capital requirements and the Company's overall strategy with respect to capital risk management remains unchanged from the year ended December 2009.

12. Comparative Figures

Certain comparative figures have been reclassified to conform with the current period's presentation.