Q2 2010

UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SECOND QUARTER ENDED JUNE 30, 2010

The MD&A provides commentary on the results of operations for the periods ended June 30, 2010 and 2009, the financial position as at June 30, 2010 and December 31, 2009, and the outlook of Ceapro Inc. ("Ceapro") based on information available as at August 3, 2010. The following information should be read in conjunction with the unaudited interim consolidated financial statements as at June 30, 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 June 30, 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 August 3, 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 (P.E.I.) Inc. ia a wholly owned subsidiary incorporated in Prince Edward Island. 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 products for medical, cosmetic, and animal health industries using proprietary technology and natural, renewable resources.

Our products include:

- A commercial line of natural 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 technologies, new formulations, and 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 June 30, 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 June 30, 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 83% of accounts receivable are due from two customers at June 30, 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 June 30, 2010, a total of $435,669.

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	$ 861,149	$ -	$ 861,149
Long term debt, including interest	208,608	1,239,447	1,448,055
Royalties payable	809,223	-	809,223
Convertible debentures including interest	60,000	520,000	580,000
Total	$ 1,938,980	$ 1,759,447	$3,698,427

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 first six months of 2010. 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	$336,145	$ 3,361	$ (3,361)
Financial liabilities			
Accounts payable and accrued liabilities	$35,568	$ (356)	$ 356
Total increase (decrease)		$ 3,005	$ (3,005)

The carrying amount of accounts receivable and accounts payable and accrued liabilities in USD represents the Company's exposure at June 30, 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 of $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 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.

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 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.

Results of Operations

Six Months and Quarters Ended June 30, 2010 and 2009

SELECTED INFORMATION

	Six Months Ended June 30		Quarter Ended June 30	
$000s except per share data	**2010**	2009	**2010**	2009
Total revenues	**2,173**	2,714	**1,018**	1,212
Income from operations	**145**	449	**52**	216
Net income	**189**	569	**237**	466
Basic net income per share	**0.00**	0.01	**0.00**	0.01
Diluted net income per share	**0.00**	0.01	**0.00**	0.01

The first six months of fiscal 2010 saw a decrease in revenues of $541,000 or 20%. The sales of active ingredients to the personal care industry decreased by $75,000 or 3% with higher sales volumes offset to a larger degree by a lower US dollar versus the Canadian dollar. There was also a decrease of $466,000 in sales to the animal health industry segment in comparison to 2009. The timing of orders in the animal health industry can often vary between quarterly reporting periods.

There was net income for the first six months of $189,000 which included the reversal of $315,000 of disputed legal fees previously accrued in 2008. There was net income of $569,000 in the same period in 2009 including the reversal of $426,000 of disputed legal fees accrued in 2008. Income from operations was $189,000 compared with $569,000 in 2009 largely due to lower gross margins offset partially by lower operating and royalty costs.

The second quarter of 2010 resulted in a decrease in sales of $194,000 or 16% compared to 2009. Sales to the animal health industry sector decreased by $212,000 in the second quarter of 2010 versus the same period in 2009 while sales to the personal care industry increased $18,000 because of higher sales volumes offset partially by a lower US dollar versus the Canadian dollar. Income from operations in the second quarter was $52,000 compared with $216,000 in 2009 due to lower gross margins partially offset by lower operating and royalty costs. Net income for the quarter was $237,000 including a legal fee reversal of $315,000 versus $466,000 in 2009 which included a legal fee reversal of $426,000.

Revenue

	Six Months Ended June 30			Quarter Ended June 30		
$000s	**2010**	2009	Change	**2010**	2009	Change
Total sales	**2,173**	2,714	-20%	**1,018**	1,212	-16%

PRODUCT SALES

Total sales have decreased 20% in 2010 from the 2009 record levels for the six months year to date. This is due primarily to a decrease in animal health industry segment sales and the weakening of the US dollar exchange rate relative to the Canadian dollar.

Sales of active ingredients to the personal care industry increased in volume over 2009 reflecting growing demand for Ceapro products.

Expenses

COST OF GOODS SOLD AND GROSS MARGINS

	Six Months Ended June 30			Quarter Ended June 30		
$000s	**2010**	2009	Change	**2010**	2009	Change
Sales	**2,173**	2,714		**1,018**	1,212	
Cost of goods sold	**1,250**	1,098		**558**	447	
Gross margin	923	1,616	-43%	**460**	765	-40%
Gross margin %	42%	60%		45%	63%	

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, transportation costs, plant costs, and amortization on plant and equipment assets. Aside from labour, rent, quality control related expenses, and property plant and equipment amortization the majority of costs are variable in relation to the volume of product produced or shipped.

Margins are lower in both the first six months and second quarter of 2010 due to a lack of animal health industry sales, a sales mix that had higher sales volume of lower margin products, and a weakening of the US dollar relative to the Canadian dollar compared with the same period in 2009. During the second quarter the Company had its first commercial scale production of its lupin product and this operation took longer than anticipated.

GENERAL AND ADMINISTRATION

$000s	Six Months Ended June 30 2010	2009	Change	Quarter Ended June 30 2010	2009	Change
Salaries and benefits	**179**	213		**90**	105	
Consulting	**84**	94		**42**	51	
Insurance	**56**	52		**28**	25	
Investor relations	**28**	84		**21**	49	
Legal	**30**	57		**10**	23	
Directors Compensation	**89**	102		**44**	64	
Other	**148**	206		**88**	100	
Total general and administration expenses	**614**	808	-24%	**323**	417	-23%

General and administration expense (G&A) for the first six months of 2010 decreased $194,000 or 24%. Director's compensation decreased due to lower stock based compensation because stock options were not issued in 2010 but were issued in 2009. Consulting fees decreased $10,000 in 2010 primarily as a result of IFRS consulting expenses incurred in 2009. Investor relations costs decreased $56,000 primarily as a result of a decision to not renew the contract of the Company's investor relations consultant in 2010. Most other costs decreased which reflects efforts by the Company to reduce expenditures and focus on core areas of the business.

The same factors noted for the first six months of 2010 were also applicable in the second quarter and resulted in lower expenses of $94,000 or 23% for the quarter.

SALES AND MARKETING

$000s	Six Months Ended June 30 2010	2009	Change	Quarter Ended June 30 2010	2009	Change
Salaries and benefits	**-**	53		**-**	15	
Travel	**15**	11		**7**	4	
Other	**24**	21		**11**	6	
Total sales and marketing	**39**	85	-54%	**18**	25	-28%

Sales and marketing expenses decreased significantly by $46,000 or 54% largely due to the restructuring of marketing activities. This was offset by an increase in travel costs and conference expenses associated with market expansion activities. During the second quarter the Company reached an agreement with Oat Cosmetics to market Ceapro products in the UK.

The second quarter of 2010 showed overall reduction in expenditures of $7,000 or 28% versus 2009 for the same reasons as experienced in the first six months.

ROYALTIES

$000s	Six Months Ended June 30 2010	2009	Change	Quarter Ended June 30 2010	2009	Change
Total royalties expenses	**51**	245	-79%	**24**	90	-73%
Recognition of deferred royalty revenue	**(25)**	(31)		**(11)**	(14)	
Net royalty expense	**26**	214	-88%	**13**	76	-83%

As of June 30, 2010, royalty investors receive royalties equal to 2.285% (2009- 7.448%) 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. During the first quarter of 2009 a 3.142% royalty was fully accrued and in the third quarter of 2009 a 5.163% royalty was fully accrued. The expense for the first six months of 2010 is 88% lower than 2009 due to the lower royalty rate in 2010 and lower sales in 2010. 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 product sales, royalty, license and product development fees, product sales mix, and any new royalty interest offerings or investments that may be completed. As of June 30, 2010 the Company is in arrears a total of $809,223 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. Subsequent to June 30, 2010 the Company settled royalty obligations in the amount of $270,560 through the issuance of 3,006,224 common shares of Ceapro Inc.

INTEREST & AMORTIZATION

$000s	Six Months Ended June 30 2010	2009	Change	Quarter Ended June 30 2010	2009	Change
Total interest expense	**36**	39	-8%	**18**	19	-5%
Amortization	**17**	21	-19%	**8**	12	-33%

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

For the six months ended June 30, 2010 the total amortization of $170,000 (2009- $179,000) was allocated as follows: $17,000 (2009- $21,000) to amortization expense, $16,000 (2009- $23,000) to inventory, and $137,000 (2009- $135,000) to cost of goods sold.

Other Income (Expenses)

RESEARCH AND PRODUCT DEVELOPMENT

$000s	Six Months Ended June 30 2010	2009	Change	Quarter Ended June 30 2010	2009	Change
Salaries and benefits	**150**	193		**64**	99	
Regulatory and patents	**71**	67		**56**	38	
Other	**35**	10		**14**	6	
	256	270	-5%	**134**	143	-6%
Product development - *CeaProve®*	**26**	11	136%	**10**	2	400%
Total research and product development expenses	**282**	281	0%	**144**	145	-1%

Research and product development expenses for the six month period were basically unchanged. There was an increase in costs for Ceaprove® due to scaling up manufacturing at a new manufacturing facility. There was an increase in costs related to new research projects with the National Research Council and oat oil technology and an increase in patent costs offset by lower salary and benefit costs.

For the second quarter, research and development expenses decreased only slightly. The same factors that were applicable for the six months ended June 30, 2010 applied for the quarter.

OTHER INCOME (EXPENSE)

Other income (expense) is comprised of $10,000 in foreign exchange gains during the six months period ended June 30, 2010. During the quarter ended June 30, 2010, the Company recognized foreign exchange gains of $14,000 and $1,000 of other expenses.

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	**Q2**	**Q1**	Q4	Q3	Q2	Q1	Q4	Q3
Total revenues	1,018	**1,155**	395	1,261	1,212	1,502	1,049	871
Net income (loss)	237	**(49)**	(634)	(4)	466	103	(1,415)	(488)
Basic net income (loss) per share	**0.00**	**(0.00)**	(0.01)	(0.00)	0.01	0.00	(0.04)	(0.01)
Diluted net income (loss) per share	**0.00**	**(0.00)**	(0.01)	(0.00)	0.01	0.00	(0.04)	(0.01)

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 August 3, 2010 were 54,988,039 (August 10, 2009 – 51,710,063). In addition, 2,485,000 stock options (August 10, 2009 – 2,538,335) were outstanding that are potentially convertible into an equal number of common shares at various prices. Shareholders' deficiency of $1,140,000 at June 30, 2010 represented a decrease from a shareholders' deficiency of $1,373,000 at December 31, 2009.

Ceapro's working capital position was ($944,000) at June 30, 2010, 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, joint venture or partnership financings, and government research programs. 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.

During the second quarter the Company received approval for a non repayable contribution of $50,000 from the Atlantic Canada Opportunity Agency, a non repayable contribution of up to $99,900 from an Alberta research funding program, and a repayable contribution for up to $100,000 from Innovation PEI.

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

Related Party Transactions

During the six months of 2010, $10,052 (2009 - $29,056) of royalties were earned by employees and directors from their investment in previous Ceapro royalty offerings. As at June 30, 2010, $94,633 (2009 - $75,028) of royalties were payable to employees and directors. Consulting fees of $75,000 (2009 - $75,000) were earned by a company controlled by a director during the six months ending June 30, 2010. During the six months ended June 30, 2010 employees and directors earned $1,900 of interest on convertible debentures. As at June 30, 2010 employees and directors owned $46,900 of convertible debentures and accrued interest. As at June 30, 2010, consulting fees of $50,000 (2009 – $37,500) were payable to a company controlled by a director and included in accounts payable and accrued liabilities. At June 30, 2010 there is a $50,000 advance from an officer that is non-interest bearing and repayable on demand. 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) During the year ended 2008, the Company recorded a provision of $741,283 for disputed legal fees related to a previous litigation case that was settled with all defendants in 2009. The terms of the legal settlement were fully satisfied in 2009. During the second quarter of 2009, the Company was advised by one of its legal counsel that they did not intend to pursue collection of their previously billed legal fees. The amount of the fees was $426,300 and this was recorded as a recovery in the second quarter of 2009.

During the current quarter, management reviewed the exposure of the remaining provision totaling $314,983 with legal counsel. Based upon the review by management at June 30, 2010 with legal counsel and the circumstances applicable at this date, management believes the Company is no longer exposed to the remaining accrued legal fees liability and the amount of $314,983 has been recorded as a recovery in the quarter.

(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 six months of 2010 are encouraging because sales to the personal care market are higher than in 2009 and current advance indications suggest volume growth in the second half of 2010 will be significantly higher than the second half of 2009. Despite the decrease in animal health sales, the expectation of overall sales growth in 2010 over 2009 seems very likely.

Ceapro’s marketing and business development efforts are starting to pay off. Several new potential customers are assessing applications for Ceapro’s innovative active ingredients. During the second quarter of 2010 Ceapro shipped multiple tonne quantities of its lupin peptide to be incorporated into a major personal care brand. 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 and the announcement of an agreement with Oat Cosmetics to market Ceapro products in the UK is an example of how Ceapro intends to get good global sales coverage for its products.

The collaboration with the National Research Council which began in the second quarter is expected to be a long term partnership 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. This collaboration provides access to state of the art research facilities and world-class scientists.

During the quarter, Ceapro began preliminary small scale extractions of new products using super critical technology. Several new products are expected to be developed through these efforts. In addition, Ceapro is currently evaluating compounds from other regions in the world for their economic potential in the personal care market.

Ceapro began shipping oat oil from the 2010 production run in July, 2010 and expects strong sales of this product in the second half of 2010.

Over the last two years, Ceapro has come a long way through a decline, turn over, and stabilization cycle. Ceapro is now very confident and excited that it has the key ingredients and partners 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 on the sales and product development front, 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.

Financial Statements

Unaudited Consolidated Financial Statements for the Second Quarter Ended June 30, 2010

Ceapro Inc.

CEAPRO INC.

Consolidated Balance Sheets

	June 30 2010 (Unaudited)	December 31 2009 (Audited)
ASSETS		
CURRENT ASSETS		
Cash	**$ 27,164**	$ 115,502
Accounts receivable	**408,505**	151,144
Inventories	**427,112**	516,821
Prepaid expenses and deposits	**66,167**	62,309
	928,948	845,776
LICENSE	**25,500**	27,000
PROPERTY AND EQUIPMENT (net of accumulated amortization)	**1,728,439**	1,897,878
	$ 2,682,887	$ 2,770,654
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	**$ 811,149**	$ 846,538
Current portion of deferred royalty revenue	**60,000**	60,000
Current portion of long-term debt	**142,564**	138,806
Current portion of royalties payable	**809,223**	758,436
Advance from officer	**50,000**	-
SGGF legal fees (Note 9)	**-**	314,983
	1,872,936	2,118,763
DEFERRED ROYALTY REVENUE	**195,592**	220,422
EMPLOYEE FUTURE BENEFITS OBLIGATION	**144,034**	136,786
LONG-TERM DEBT	**1,155,192**	1,227,426
CONVERTIBLE DEBENTURES	**455,000**	440,000
	3,822,754	4,143,397
SHAREHOLDERS' DEFICIENCY		
SHARE CAPITAL	**5,479,202**	5,479,202
EQUITY COMPONENT OF CONVERTIBLE DEBENTURES	**60,000**	60,000
CONTRIBUTED SURPLUS	**523,245**	478,945
DEFICIT	**(7,202,314)**	(7,390,890)
	(1,139,867)	(1,372,743)
	$ 2,682,887	$ 2,770,654

Contingency (Note 9)

See accompanying notes

CEAPRO INC.

Consolidated Statements of Net Income, Comprehensive Income and Deficit

Unaudited

	Six Months Ended June 30		Quarters Ended June 30	
	2010	2009	**2010**	2009
Revenue				
Sales	**$ 2,173,343**	$ 2,713,927	**$ 1,018,481**	$ 1,212,018
Cost of goods sold	**1,250,046**	1,097,814	**557,928**	446,775
Gross margin	**923,297**	1,616,113	**460,553**	765,243
Expenses				
General and administration	**613,602**	807,516	**322,929**	417,194
Royalties	**25,956**	214,458	**12,762**	76,431
Sales and marketing	**39,116**	85,063	**17,947**	24,761
Amortization	**16,891**	20,809	**8,363**	11,511
Write off of property plant and equipment	**10,490**	-	**10,490**	-
Interest on convertible debentures	**21,096**	-	**11,071**	-
Accretion on convertible debentures	**15,000**	-	**7,500**	-
Interest on long-term debt	**35,831**	38,794	**17,687**	18,880
	777,982	1,166,640	**408,749**	548,777
Income from operations	**145,315**	449,473	**51,804**	216,466
Other income (expenses)				
Research and product development	**(282,098)**	(281,195)	**(143,970)**	(145,624)
Other income (expenses)	**10,376**	(25,870)	**14,591**	(31,210)
	(271,722)	(307,065)	**(129,379)**	(176,834)
Comprehensive income (loss) before SGGF legal fees recovery (expense) and income taxes	**(126,407)**	142,408	**(77,575)**	39,632
SGGF legal fees recovery	**314,983**	426,300	**314,983**	426,300
Income taxes				
Current	**59,000**	241,000	**37,000**	184,000
Reduction as a result of applying non-capital losses carried forward against the current period's taxable income	**(59,000)**	(241,000)	**(37,000)**	(184,000)
NET INCOME AND COMPREHENSIVE INCOME FOR THE PERIOD	**188,576**	568,708	**237,408**	465,932
Deficit, beginning of period	**(7,390,890)**	(7,321,541)	**(7,439,722)**	(7,218,765)
Deficit, end of period	**$ (7,202,314)**	$ (6,752,833)	**$ (7,202,314)**	$ (6,752,833)
Net income per share:				
Basic	**$ 0.00**	$ 0.01	**$ 0.00**	$ 0.01
Diluted	**$ 0.00**	$ 0.01	**$ 0.00**	$ 0.01

See accompanying notes

CEAPRO INC.

Consolidated Statements of Cash Flows

Unaudited

	Six Months Ended June 30		Quarters Ended June 30	
	2010	2009	**2010**	2009
Operating Activities				
Net income for the period	**$ 188,576**	$ 568,708	**$ 237,408**	$ 465,932
Adjustments to reconcile net income to cash provided				
Amortization	**170,205**	178,681	**81,283**	90,387
Employee future benefits obligation	**7,248**	7,814	**3,624**	2,871
Recognition of deferred royalty revenue	**(24,830)**	(31,007)	**(11,636)**	(13,847)
Accretion on convertible debenture	**15,000**	-	**7,500**	-
Write off of property plant and equipment	**10,490**	-	**10,490**	-
Stock based compensation	**44,300**	60,625	**22,150**	45,737
	410,989	784,821	**350,819**	591,080
Changes in Non-Cash Working Capital Items				
Accounts receivable	**(257,361)**	(40,631)	**(137,955)**	(329)
Inventories	**89,709**	(70,161)	**126,183**	(87,913)
Prepaid expenses and deposits	**(3,858)**	10,774	**8,484**	11,274
Accounts payable and accrued liabilities	**(35,389)**	(291,691)	**(128,146)**	(222,269)
Current portion of employee future benefits obligation	**-**	(113,552)	**-**	(83,817)
SGGF legal fees	**(314,983)**	(798,800)	**(314,983)**	(602,550)
	(110,893)	(519,240)	**(95,598)**	(394,524)
Investing Activities				
Purchase of property and equipment	**(9,756)**	(17,408)	**(4,510)**	(10,239)
	(9,756)	(17,408)	**(4,510)**	(10,239)
Financing Activities				
Repayment of long-term debt	**(68,476)**	(65,513)	**(34,467)**	(33,274)
Proceeds from issuance of share capital	**-**	466,000	**-**	466,000
Share issue costs	**-**	(3,193)	**-**	(3,193)
Increase in royalties payable	**50,787**	245,464	**24,399**	90,277
Advance from officer	**50,000**	-	**50,000**	-
	32,311	642,758	**39,932**	519,810
Increase (decrease) in cash	**(88,338)**	106,110	**(60,176)**	115,047
Cash at beginning of period	**115,502**	16,525	**87,340**	7,588
Cash at end of period	**$ 27,164**	$ 122,635	**$ 27,164**	$ 122,635
Supplementary information				
Interest paid	**$ 35,831**	$ 38,794	**$ 17,687**	$ 18,880

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 Accounting Pronouncements

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.

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 IAS 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

	June 30 2010 (unaudited)	December 31 2009 (audited)
Raw materials	**$ 203,847**	$ 218,604
Work in progress	**141,893**	135,026
Finished goods	**81,372**	163,191
	$ 427,112	$ 516,821

Inventories expensed in cost of goods sold during the six months ended June 30, 2010 is $1,237,987 (six months ended June 30, 2009 - $1,069,791).

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

	June 30 2010	December 31 2009
Number of Shares	**51,710,063**	51,710,063
Amount	**$ 5,479,202**	$ 5,479,202

4. Share Capital (continued)

(c) Stock options outstanding are as follows:

Year of Expiration	Exercise Price	Number of Options Outstanding June 30 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

	Six Months ended June 30, 2010 (unaudited)	Three Months ended June 30, 2010 (unaudited)	December 31 2009 (audited)
Unfunded balance, beginning of period	**$ 136,786**	**$ 140,410**	$ 304,012
Benefits paid	**-**	**-**	(187,000)
Current service cost	**4,382**	**2,191**	14,871
Interest costs on accrued obligation	**2,866**	**1,433**	4,903
Unfunded balance, end of period	**$ 144,034**	**$ 144,034**	$ 136,786

6. Related Party Transactions

	Six Months Ended June 30 2010	2009
Royalties earned by employees and directors	**$ 10,052**	$ 29,056
Royalties payable to employees and directors included in royalties payable	**94,633**	75,028
Consulting fees earned by a company controlled by a director	**75,000**	75,000
Consulting fees payable to a company controlled by a director in accounts payable and accrued liabilities	**50,000**	37,500
Convertible debentures and accrued interest owned by employees and directors	**46,900**	-
Interest earned by employees and directors	**1,900**	-
Advance from officer, non-interest bearing, repayable on demand	**50,000**	-

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:

	Six Months Ended June 30	
	2010	2009
Foreign exchange gains (losses)	**$ 10,412**	$ (26,114)
Interest and other income (expenses)	**(36)**	244
Total other income (expenses)	**$ 10,376**	$ (25,870)

8. Segmented Information

The Company operates in one industry segment, which is the active ingredient 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 also located in North America. The distribution of revenue by location of customer is as follows:

	Six Months Ended June 30	
	2010	2009
United States	**$ 1,538,813**	$ 1,425,478
Other	**$ 634,210**	$ 1,251,389
Canada	**320**	37,060
	$ 2,173,343	$ 2,713,927

9. Contingency

a) During the year ended 2008, the Company recorded a provision of $741,283 for disputed legal fees related to a previous litigation case that was settled with all defendants in 2009. The terms of the legal settlement were fully satisfied in 2009. During the second quarter of 2009, the Company was advised by one of its legal counsel that they did not intend to pursue collection of their previously billed legal fees. The amount of the fees was $426,300 and this was recorded as a recovery in the second quarter of 2009.

During the current quarter, management reviewed the exposure of the remaining provision totaling $314,983 with legal counsel. Based upon the review by management at June 30, 2010 with legal counsel and the circumstances applicable at this date, management believes the Company is no longer exposed to the remaining accrued legal fees liability and the amount of $314,983 has been recorded as a recovery in the quarter.

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, 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, and royalties payable 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.

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 83% 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 June 30, 2010, a total of $435,669.

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	$ 861,149	$ -	$ 861,149
Long term debt, including interest	208,608	1,239,447	1,448,055
Royalties payable	809,223	-	809,223
Convertible Debentures including interest	60,000	520,000	580,000
Total	$ 1,938,980	$ 1,759,447	$ 3,698,427

10. Financial Instruments (continued)

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 first six months of 2010. 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% Earnings & Equity	Foreign Exchange Risk (USD) 1% Earnings & Equity
Financial assets			
Accounts receivable	$ 336,145	$ 3,361	$ (3,361)
Financial liabilities			
Accounts payable and accrued liabilities	$ 35,568	$ (356)	$ 356
Total increase(decrease)		$ 3,005	$ (3,005)

The carrying amount of accounts receivable and accounts payable and accrued liabilities in USD represents the Company's exposure at June 30, 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 of $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.

11. Capital Disclosures (continued)

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.

13. Subsequent Events

a) Subsequent to the end of the quarter the Company issued 3,006,224 common shares for full settlement of royalty payable obligations totaling $270,560. The company issued a further 271,752 common shares for full settlement of interest due on convertible debentures at June 30, 2010 in the amount of $21,096.

b) In July 2010, the Company received a $50,000 repayable contribution from Innovation P.E.I. as part of research collaboration that was announced on June 21, 2010. The contribution is interest free and is repayable in minimum quarterly installments of $12,500 commencing September 30, 2011.