Q3 2010

UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THIRD QUARTER ENDED SEPTEMBER 30, 2010

The MD&A provides commentary on the results of operations for the periods ended September 30, 2010 and 2009, the financial position as at September 30, 2010 and December 31, 2009, and the outlook of Ceapro Inc. ("Ceapro") based on information available as at November 5, 2010. The following information should be read in conjunction with the unaudited interim consolidated financial statements as at September 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 September 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 November 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 (P.E.I.) Inc. is 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 to *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 for *CeaProve®* to advance commercialization opportunities;
- 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 and direct sales. Our marketing strategy emphasizes providing technical support to our distributors and their customers and generating direct sales 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:

- Adding value to all aspects of our business;
- Enhancing the health of humans and animals;
- Discovering, extracting, and commercializing new, natural active 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 investment 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 September 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 cash flow.

The consolidated financial statements as at September 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 93% of accounts receivable are due from two customers at September 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 September 30, 2010, a total of $740,102.

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 in cash 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	$ 878,133	$ -	$ 878,133
Long term debt, including interest	208,608	1,187,295	1,395,903
Royalties payable	565,744	-	565,744
Repayable Research Funding	-	50,000	50,000
Convertible Debentures including interest	40,000	520,000	560,000
Total	$1,692,485	$1,757,295	$3,449,780

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 $48,000 annually based upon estimated 2010 U.S. dollar sales of $4,800,000. Estimated sales were assumed by annualizing sales during the first nine 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	$470,885	$ 4,709	$ (4,709)
Financial liabilities			
Accounts payable and accrued liabilities	$ 92,536	$ (925)	$ 925
Total increase (decrease)		$ 3,784	$ (3,784)

The carrying amount of accounts receivable and accounts payable and accrued liabilities in USD represents the Company's exposure at September 30, 2010.

ii) Interest rate risk

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 its 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

Nine Months and Quarters Ended September 30, 2010 and 2009

SELECTED INFORMATION

	Nine Months Ended Sept 30		Quarter Ended Sept 30	
$000s except per share data	**2010**	2009	**2010**	2009
Total revenues	**3,881**	3,976	**1,708**	1,262
Income (loss) from operations	**505**	581	**360**	131
Net income (loss)	**303**	565	**115**	(4)
Basic (loss) per share	**0.01**	0.01	**0.00**	(0.00)
Diluted (loss) per share	**0.01**	0.01	**0.00**	(0.00)

The first nine months of fiscal 2010 saw a decrease in revenues of $95,000 or 2%. The sales of active ingredients to the personal care industry increased by $371,000 due to higher sales volumes for most products offset partially by a strengthening Canadian dollar versus the US dollar. There has been 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 vary between quarterly reporting periods.

Net income in the nine months ended September 30, 2010 of $303,000 which includes the reversal of $315,000 of a legal fee accrual previously recorded in 2008. There was net income of $565,000 in the same period in 2009 including the reversal of $426,000 in disputed legal fees accrued in 2008. Income from operations was $505,000 compared to $581,000 in 2009 largely due to lower gross margins offset partially by lower operating expenses and royalties. Research costs increased $122,000 due primarily to expenditures undertaken as a result of new research projects. The previous period also recognized the recovery of certain research costs previously expensed.

The third quarter of 2010 resulted in record quarterly sales, an increase in sales of 446,000 or 35% compared to 2009. Income from operations in the third quarter was $360,000 compared with $131,000 in 2009 as a result of higher sales and lower royalties. Net income for the quarter was a record $115,000. There was a third quarter foreign exchange loss of $14,000 in the current quarter while in the same period in 2009 there was a foreign exchange loss of $38,000, offset by other income of $13,000.

Revenue

	Nine Months Ended Sept 30			Quarter Ended Sept 30		
$000s	**2010**	2009	Change	**2010**	2009	Change
Total sales	**3,881**	**3,976**	-2%	**1,708**	**1,262**	35%

PRODUCT SALES

Total sales for the first nine months of fiscal 2010 approached the record levels recorded in 2009. These sales reflect record demand and sales for Ceapro active ingredients in the personal care industry.

Sales in the third quarter increased sharply by 35% to a record $1,708,000 as a result of strong demand from the personal care sector for Ceapro active ingredients.

Expenses

COST OF GOODS SOLD AND GROSS MARGINS

	Nine Months Ended Sept 30			Quarter Ended Sept 30		
$000s	**2010**	2009	Change	**2010**	2009	Change
Sales	**3,881**	3,976		**1,708**	1,262	
Cost of goods sold	**2,207**	1,847		**957**	748	
Gross margin	1,674	2,128	-21%	**751**	513	46%
Gross margin %	43%	54%		44%	41%	

Cost of goods sold is comprised of the direct raw materials required for the specific formulation of products, as well as direct labour, quality assurance and 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.

Gross margin and gross margin percentage were lower in the first nine months of 2010 primarily due to the strengthening of the Canadian dollar versus US dollar and a varying product mix.

The third quarter gross margin increased in 2010 primarily due to the record volume of sales in the quarter. There was a slight increase in the gross margin percentage in the third quarter of 2010 versus 2009 due to the higher sales volume in 2010.

GENERAL AND ADMINISTRATION

	Nine Months Ended Sept 30			Quarter Ended Sept 30		
$000s	**2010**	2009	Change	**2010**	2009	Change
Salaries and benefits	**260**	299		**80**	86	
Consulting	**141**	140		**57**	45	
Insurance	**85**	85		**29**	33	
Investor relations	**38**	107		**11**	23	
Legal	**53**	60		**22**	10	
Directors Compensation	**140**	146		**52**	44	
Other	**223**	273		**75**	61	
Total general and administration expenses	**940**	1,110	-15%	**326**	302	8%

General and administration expense (G&A) for the first nine months of 2010 decreased $170,000 or 15%. Salaries decreased as a result of staff reductions during the year. Investor relations decreased as the Company has not engaged investor relations consultants in 2010 as they did in 2009. Most other costs decreased as a result of efforts to minimize expenditures.

G&A rose in the third quarter of 2010 by $24,000 versus the same quarter in 2009. Consulting increased due to increased resources required for the Company's conversion to IFRS. Legal costs, which can vary significantly by quarter, were the result of a general increased need for legal consultation. Directors compensation increased due to higher stock based compensation expenses as a result of options granted in August 2010.

SALES AND MARKETING

	Nine Months Ended Sept 30			Quarter Ended Sept 30		
$000s	**2010**	2009	Change	**2010**	2009	Change
Salaries and benefits	**-**	68		**-**	15	
Travel	**15**	13		**-**	2	
Other	**35**	31		**11**	10	
Total sales and marketing	**50**	112	-55%	**11**	27	-59%

Sales and marketing expenses decreased by 55% largely due to staff reductions for marketing activities. There was a slight increase in travel costs and conference expenses associated with market expansion and production of corporate promotional material in the first nine months of 2010.

The third quarter of 2010 showed a reduction in expenditures of 59% versus 2009 for the same reasons discussed for the nine month period.

The Company is currently reviewing new marketing initiatives for 2011.

ROYALTIES

	Nine Months Ended Sept 30			Quarter Ended Sept 30		
$000s	**2010**	2009	Change	**2010**	2009	Change
Total royalties expenses	**78**	280	-72%	**27**	35	-23%
Recognition of deferred royalty revenue	**(39)**	(45)		**(14)**	(14)	
Net royalty expense	**39**	235	-83%	**13**	21	-38%

As of September 30, 2010, royalty investors receive royalties equal to 2.285% (2009- 2.285%) 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 Ltd. 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 royalty rates, product sales, royalty, license and product development fees, product sales mix, and any new royalty interest offerings or AVAC investments that may be completed. During the third quarter the Company settled royalty obligations in the amount of $270,560 through the issuance of 3,006,224 common shares of Ceapro Inc. As at September 30, 2010 the Company was in arrears the amount of $566,000 to AVAC Ltd. and other royalty holders as the Company had insufficient financial resources to repay the obligations accrued. Subsequent to the end of the quarter, the Company repaid a total of $218,000 toward the royalty obligation.

INTEREST & AMORTIZATION

	Nine Months Ended Sept 30			Quarter Ended Sept 30		
$000s	**2010**	2009	Change	**2010**	2009	Change
Total interest expense- long term debt	**53**	58	-9%	**17**	20	-15%
Amortization	**26**	32	-19%	**9**	12	-25%

Interest costs declined as a result of a lower principal balance of long-term debt from the previous year. For the nine months ended September 30, 2010 the total amortization of $257,000 (2009- $270,000) was allocated as follows: $26,000 (2009- $32,000) to amortization expense, $15,000 (2009- $14,000) to inventory, and $216,000 (2009-$224,000) to cost of goods sold.

Other Income (Expenses)

RESEARCH AND PRODUCT DEVELOPMENT

	Nine Months Ended Sept 30			Quarter Ended Sept 30		
$000s	**2010**	2009	Change	**2010**	2009	Change
Salaries and benefits	**239**	291		**89**	98	
Regulatory and patents	**105**	83		**33**	16	
Other	**90**	(35)		**57**	(45)	
	434	339	28%	**179**	69	159%
Product development - *CeaProve®*	**79**	52	52%	**52**	41	27%
Total research and product development expenses	**513**	391	31%	**231**	110	110%

Research and product development expenses for the nine month period increased 28% from 2009 expenses as a result of new research and development projects commenced in 2010 and higher costs for patents. There was an increase in costs for Ceaprove® related to contract manufacturing of the product. As a result, total research and product development expenditures decreased by 31%.

For the third quarter research and development expenses increased 159% while total research and development, including Ceaprove®, increased 110%. The same factors that were relevant for the nine month increase were applicable for the third quarter.

OTHER INCOME (EXPENSES)

Other income is comprised primarily of $4,000 of foreign exchange loss during the nine months ended September 30, 2010 compared to foreign exchange gains of $64,000 in 2009 offset by $13,000 in other income. The foreign exchange losses in the third quarter of 2010 were $14,000 compared to a foreign exchange loss of $38,000 in 2009 offset by other income of $13,000.

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	**Q3**	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Total revenues	**1,708**	1,018	1,155	395	1,261	1,212	1,502	1,049
Net (loss) income	**115**	237	(49)	(634)	(4)	466	103	(1,415)
Basic (loss) income per share	**0.00**	0.00	(0.00)	(0.01)	(0.00)	0.01	0.00	(0.04)
Diluted (loss) income per share	**0.00**	0.00	(0.00)	(0.01)	(0.00)	0.01	0.00	(0.04)

Ceapro's quarterly sales and results primarily fluctuate due to variations in the timing of customer orders, different product mixes, and the capacity to manufacture products.

Liquidity and Capital Resources

Ceapro relies upon revenues generated from the sale of active ingredients, 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 November 5, 2010 were 54,988,039 (November 24, 2009 – 51,710,063). In addition, 3,105,000 stock options (November 24, 2009 – 2,485,000) were outstanding that are potentially convertible into an equal number of common shares at various prices. Shareholders' deficiency of $722,000 at September 30, 2010 represented a decrease from a shareholders' deficiency of $1,373,000 at December 31, 2009.

Ceapro's working capital position was ($447,000) at September 30, 2010, an improvement from ($1,273,000) at December 31, 2009.

To meet future requirements, Ceapro intends to raise additional cash 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 cash 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 first nine months of 2010 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, a non repayable contribution of $124,000 from Alberta Ingenuity, and a repayable contribution for up to $100,000 from Innovation PEI, of which $50,000 has been received to date.

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

Related Party Transactions

During the first nine months of 2010, $15,761 (2009 - $36,988) of royalties were earned by employees and directors from their investment in previous Ceapro royalty offerings. As at September 30, 2010, $26,854 (2009 - $82,960) of royalties were payable to employees and directors. Consulting fees of $112,500 (2009 - $112,500) were earned by a company controlled by a director during the nine months ending September 30, 2010. During the nine months ended September 30, 2010 employees and directors earned $2,800 of interest on convertible debentures. As at September 30, 2010 employees and directors owned $46,900 of convertible debentures and accrued interest. As at September 30, 2010, consulting fees of $12,500 (2009 –

$37,500) 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) 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 second quarter of 2010, 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 believed the Company is no longer exposed to the remaining accrued legal fees liability and the amount of $314,983 was recorded as a recovery in the second quarter of 2010.

(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 both for the third quarter 2010 and the year to date are very encouraging. In terms of volume, Ceapro shipments for the first 9 months have increased 28% over the same period in 2009. With the orders presently in place for the fourth quarter, we expect 2010 will be the best year for sales in Ceapro's history. This is solid evidence of the successful implementation of Ceapro's renewed and focused strategy.

From a financial perspective, these results translate into positive trends of improved working capital, a strengthened balance sheet, an ability to reduce debt to royalty holders, and an improved foundation to pursue traditional commercial financing.

This overall improving situation is being noticed by both private and public sectors who see tremendous value in Ceapro technology to form partnerships. Recent contributions from the Atlantic Canada Opportunities Agency, Innovation PEI, Alberta Ingenuity and an Alberta agriculture based funding program reflect a vote of confidence in both Ceapro technology and our ability to commercialize the novel technology that Ceapro is developing. We anticipate additional partnerships will be completed in the near future.

Thanks to the contributions Ceapro has received, we are able to initiate innovative research projects in both Alberta and Prince Edward Island. Ceapro's participation is being sought in other projects by other parties which should lead to an expanded base of opportunity for growth. We anticipate a need to expand our marketing and business development in 2011.

We believe that Ceapro has turned the corner in 2010. With our strong team of dedicated and hard working staff, we believe Ceapro is well positioned to achieve superior results in the future.

Additional Information

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

Financial Statements

Unaudited Consolidated Financial Statements for the Third Quarter Ended September 30, 2010

Ceapro Inc.

CEAPRO INC.

Consolidated Balance Sheets

	September 30 2010 (Unaudited)	December 31 2009 (Audited)
ASSETS		
CURRENT ASSETS		
Cash	**$ 224,609**	$ 115,502
Accounts receivable	**515,493**	151,144
Inventories	**377,418**	516,821
Prepaid expenses and deposits	**71,939**	62,309
	1,189,459	845,776
LICENSE	**24,750**	27,000
PROPERTY AND EQUIPMENT (net of accumulated amortization)	**1,669,468**	1,897,878
	$ 2,883,677	$ 2,770,654
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	**$ 878,133**	$ 846,538
Current portion of deferred royalty revenue	**60,000**	60,000
Current portion of long-term debt	**132,736**	138,806
Currrent portion of royalties payable	**565,744**	758,436
SGGF legal fees (Note 9)	**-**	314,983
	1,636,613	2,118,763
DEFERRED ROYALTY REVENUE	**181,488**	220,422
EMPLOYEE FUTURE BENEFITS OBLIGATION	**147,658**	136,786
LONG-TERM DEBT	**1,130,090**	1,227,426
REPAYABLE RESEARCH FUNDING	**50,000**	-
CONVERTIBLE DEBENTURES	**460,241**	440,000
	3,606,090	4,143,397
SHAREHOLDERS' DEFICIENCY		
SHARE CAPITAL	**5,770,858**	5,479,202
EQUITY COMPONENT OF CONVERTIBLE DEBENTURES	**60,000**	60,000
CONTRIBUTED SURPLUS	**534,480**	478,945
DEFICIT	**(7,087,752)**	(7,390,890)
	(722,414)	(1,372,743)
	$ 2,883,677	$ 2,770,654

Contingencies (Note 9)

See accompanying notes

CEAPRO INC.

Consolidated Statements of Net Income (Loss), Comprehensive Income (Loss) and Deficit

Unaudited

	Nine Months Ended Sept 30		Quarters Ended Sept 30	
	2010	2009	**2010**	2009
Revenue				
Sales	$ 3,881,414	$ 3,975,560	$ 1,708,071	$ 1,261,634
Cost of goods sold	2,207,071	1,847,217	957,025	748,404
Gross margin	1,674,343	2,128,343	751,046	513,230
Expenses				
General and administration	939,594	1,109,675	325,996	302,159
Royalties	38,934	235,034	12,977	20,576
Sales and marketing	49,875	112,125	10,757	27,062
Amortization	25,701	32,213	8,810	12,404
Write off of property plant and equipment	10,490	-	-	-
Interest on convertible debentures	31,197	-	10,100	-
Accretion on convertible debentures	20,241	-	5,241	-
Interest on long-term debt	53,054	58,436	17,223	19,642
	1,169,086	1,547,483	391,104	381,843
Income from operations	505,257	580,860	359,942	131,387
Other income (expenses)				
Research and product development	(512,978)	(391,473)	(230,880)	(110,278)
Other income (expenses)	(4,124)	(50,551)	(14,500)	(24,681)
	(517,102)	(442,024)	(245,380)	(134,959)
Comprehensive income (loss) before SGGF legal fees recovery (expense) and income taxes	(11,845)	138,836	114,562	(3,572)
SGGF legal fees recovery (expense)	314,983	426,300	-	-
Income taxes				
Current	87,000	275,000	28,000	34,000
Reduction as a result of applying non-capital losses carried forward against the current period's taxable income	(87,000)	(275,000)	(28,000)	(34,000)
NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD	303,138	565,136	114,562	(3,572)
Deficit, beginning of period	(7,390,890)	(7,321,541)	(7,202,314)	(6,752,833)
Deficit, end of period	$ (7,087,752)	$ (6,756,405)	$ (7,087,752)	$ (6,756,405)
Net income (loss) per share:				
Basic	$ 0.01	$ 0.01	$ -	$ -
Diluted	$ 0.01	$ 0.01	$ -	$ -

See accompanying notes

CEAPRO INC.

Consolidated Statements of Cash Flows

Unaudited

	Nine Months Ended Sept 30		Quarters Ended Sept 30	
	2010	2009	**2010**	2009
Operating Activities				
Net income (loss) for the period	**$ 303,138**	$ 565,136	**$ 114,562**	$ (3,572)
Adjustments to reconcile net income to cash provided				
Amortization	**256,915**	269,947	**86,710**	91,266
Employee future benefits obligation	**10,872**	13,308	**3,624**	5,494
Recognition of deferred royalty revenue	**(38,934)**	(45,421)	**(14,104)**	(14,414)
Accretion on convertible debenture	**20,241**	-	**5,241**	-
Write off of property plant equipment	**10,490**	-	**-**	-
Stock based compensation	**55,535**	82,776	**11,235**	22,151
	618,257	885,746	**207,268**	100,925
Changes in Non-Cash Working Capital Items				
Accounts receivable	**(364,349)**	(145,900)	**(106,988)**	(105,269)
Inventories	**139,403**	(42,217)	**49,694**	27,944
Prepaid expenses and deposits	**(9,630)**	(23,104)	**(5,772)**	(33,878)
Accounts payable and accrued liabilities	**52,691**	(169,973)	**88,080**	121,718
Current portion of employee future benefits obligation	**-**		**-**	(19,698)
Deferred revenue	**-**	(133,250)	**-**	-
SGGF legal fees	**(314,983)**	(975,050)	**-**	(176,250)
	121,389	(603,748)	**232,282**	(84,508)
Investing Activities				
Purchase of property and equipment	**(36,744)**	(43,682)	**(26,988)**	(26,274)
	(36,744)	(43,682)	**(26,988)**	(26,274)
Financing Activities				
Repayment of long-term debt	**(103,406)**	(98,024)	**(34,930)**	(32,511)
Proceeds from issuance of share capital	**-**	466,000	**-**	-
Share issue costs	**-**	(3,193)	**-**	-
Repayable research funding	**50,000**	-	**50,000**	-
Repayment of advance from officer	**-**	-	**(50,000)**	-
Increase in royalties payable	**77,868**	280,453	**27,081**	34,989
	24,462	645,236	**(7,849)**	2,478
Increase (decrease) in cash	**109,107**	(2,194)	**197,445**	(108,304)
Cash at beginning of period	**115,502**	16,525	**27,164**	122,635
Cash at end of period	**$ 224,609**	$ 14,331	**$ 224,609**	$ 14,331
Supplementary information				
Interest paid	**$ 53,054**	$ 58,436	**$ 17,223**	$ 19,642
Royalties paid	**$ -**	$ -	**$ -**	$ -

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.

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.

2. Future Accounting Pronouncements (continued)

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

	September 30 2010 (unaudited)	December 31 2009 (audited)
Raw materials	$ 185,280	$ 218,604
Work in progress	161,368	135,026
Finished goods	30,770	163,191
	$ 377,418	$ 516,821

Inventories expensed in cost of goods sold during the nine months ended September 30, 2010 is $2,163,475 (nine months ended September 30, 2009, $1,807,570).

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 December 31, 2009	**51,710,063**	**$ 5,479,202**
Equity Placements	**3,277,976**	**$ 291,656**
Balance September 30, 2010	**54,988,039**	**$ 5,770,858**

During the nine months ended September 30, 2010 the Company issued 3,006,224 common shares for the settlement of royalty payable obligations totalling $270,560 and 271,752 common shares for full settlement of interest due on convertible debentures in the amount of $21,096. These non cash transactions have been excluded from the consolidated statement of cash flows.

(c) Stock options outstanding are as follows:

Year of Expiration	**Exercise Price**	**Number of Options Outstanding** September 30 2010 (unaudited)	December 31 2009 (audited)
2015	$0.10	650,000	-
2014	$0.13	900,000	900,000
2013	$0.12	630,000	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
		3,105,000	2,485,000

5. **Employee Future Benefits Obligation**

	Nine Months ended Sept 30, 2010	Three Months ended Sept 30, 2010	December 31 2009
Unfunded balance, beginning of period	**$ 136,786**	**$ 144,034**	$ 304,012
Benefits paid	**-**	**-**	(187,000)
Current service cost	**6,574**	**2,116**	14,871
Interest costs on accrued obligation	**4,298**	**1,508**	4,903
Unfunded balance, end of period	**$ 147,658**	**$ 147,658**	$ 136,786

6. **Related Party Transactions**

	Nine Months Ended September 30 **2010**	2009
Royalties earned by employees and Directors	**$ 15,761**	$ 36,988
Royalties payable to employees and Directors included in royalties payable	**$ 26,854**	$ 82,960
Consulting fees earned by a company controlled by a director	**$ 112,500**	$ 112,500
Consulting fees payable to a company controlled by a director in accounts payable and accrued liabilities	**$ 12,500**	$ 37,500
Convertible debentures and accrued interest owned by employees and directors	**$ 45,900**	$ -
Interest earned by employees and directors	**$ 2,800**	$ -

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:

	Nine Months Ended September 30 **2010**	2009
Foreign exchange gains (losses)	**$ (4,064)**	$ (64,206)
Interest and other Income	**(60)**	13,655
Total other income (expenses)	**$ (4,124)**	$ (50,551)

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:

	Nine Months Ended September 30 **2010**	2009
North America	**$ 2,949,903**	$ 2,489,242
Other	**$ 931,087**	$ 1,449,258
Canada	**424**	37,060
	$ 3,881,414	$ 3,975,560

9. 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 second quarter of 2010, 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 second 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, repayable research funding, 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 approximates their carrying amount due to their short-term nature.

The fair value of long-term debt and convertible debentures is 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 repayable research funding is recorded at the amounts drawn under the agreement which represents the estimated fair value of the obligation plus the deferred interest benefit. 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 93% 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 September 30, 2010, a total of $740,102.

10. Financial Instruments (continued)

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 in cash 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	$ 878,133	$ -	$ 878,133
Long term debt, including interest	208,608	1,187,295	1,395,903
Royalties payable	565,744	-	565,744
Repayable research funding	-	50,000	50,000
Convertible Debentures including interest	40,000	520,000	560,000
Total	$ 1,692,485	$ 1,757,295	$ 3,449,780

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 $48,000 annually based upon estimated 2010 U.S. dollar sales of $4,800,000. Estimated sales were assumed by annualizing sales during the first nine months of 2010 and reviewing the order books. The Company does purchase some materials and services in U.S. dollars and to a lesser extent Euros. This amount will vary by

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% Earnings & Equity	Foreign Exchange Risk (USD) 1% Earnings & Equity
Financial assets			
Accounts receivable	$ 470,885	$ 4,709	$ (4,709)
Financial liabilities			
Accounts payable and accrued liabilities	$ 92,536	$ (925)	$ 925
Total increase(decrease)		$ 3,784	$ (3,784)

The carrying amount of accounts receivable and accounts payable and accrued liabilities in USD represents the Company's exposure at September 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 by $1,541.

11. Capital Disclosures

The Company considers its capital to be working capital and its shareholder (deficiency) equity. 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 year's presentation.