Consolidated Financial Statements

for the years ended

December 31, 2010 & 2009

CEAPRO

Nature Enhancing Life®

Consolidated Financial Statements for the Years Ended December 31, 2010 & 2009

Ceapro Inc.

Management's Report

To the Shareholders of **Ceapro Inc.,**

The accompanying consolidated financial statements of Ceapro Inc., and all information presented in this report, are the responsibility of Management and have been approved by the Board of Directors.

The consolidated financial statements have been prepared by Management in accordance with Canadian generally accepted accounting principles. The consolidated financial statements include some amounts that are based on the best estimates and judgments of Management. Financial information used elsewhere in the report is consistent with that in the consolidated financial statements.

To further the integrity and objectivity of data in the consolidated financial statements, Management of the Company has developed and maintains a system of internal controls, which Management believes will provide reasonable assurance that financial records are reliable and form a proper basis for preparation of consolidated financials statements, and that assets are properly accounted for and safeguarded.

The Board of Directors carries out its responsibility for the consolidated financial statements in the report principally through its Audit Committee. The Audit Committee is appointed by the Board, and all of its members are outside and unrelated Directors. The Committee meets periodically with Management and the external auditors to discuss internal controls over the financial reporting process and financial reporting issues, to make certain that each party is properly discharging its responsibilities, and to review quarterly reports, the annual report, the annual consolidated financial statements, management discussion and analysis, and the external auditors' report. The Committee reports its findings to the Board for consideration when approving the consolidated financial statements for issuance to the shareholders. The Company's auditors have full access to the Audit Committee, with and without management being present.

The consolidated financial statements have been audited by the Company's auditors, Stout & Company LLP, in accordance with auditing standards generally accepted in Canada on behalf of the shareholders.

Sincerely,

SIGNED "Gilles Gagnon"
Acting President and Chief Executive Officer

SIGNED "Branko Jankovic, CA"
Chief Financial Officer

Independent Auditors' Report

To the Shareholders of Ceapro Inc.

We have audited the accompanying consolidated financial statements of Ceapro Inc. and its subsidiaries ("the Company"), which comprise the consolidated balance sheets as at December 31, 2010 and 2009 and the consolidated statements of net income (loss) and comprehensive income (loss) and deficit and cash flows for the years then ended, and the related notes including a summary of significant accounting policies.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Ceapro Inc. as at December 31, 2010 and 2009 and the results of its operations and cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Emphasis of Matter

We draw attention to note 1 of the consolidated financial statements which describes the existence of uncertainties that may cast significant doubt about the Company's ability to continue as a going concern. Our opinion is not qualified in respect of this matter.

Stout & Company LLP

Chartered Accountants
Edmonton, Canada
April 18, 2011

CEAPRO INC.

Consolidated Balance Sheets

	December 31 2010	December 31 2009
	$	$
ASSETS		
Current Assets		
Cash	**186,690**	115,502
Accounts receivable	**570,362**	151,144
Inventories (note 3)	**279,425**	516,821
Prepaid expenses and deposits	**70,230**	62,309
	1,106,707	845,776
License (note 10b)	**24,000**	27,000
Property and equipment (note 4)	**1,689,052**	1,897,878
	2,819,759	2,770,654
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	**862,163**	846,538
Current portion of deferred royalty revenue	**60,000**	60,000
Current portion of long-term debt (note 5)	**146,426**	138,806
Royalties payable (note 7)	**378,051**	758,436
Convertible debentures (note 6)	**467,500**	-
Current portion of repayable research funding (note 19)	**12,500**	-
SGGF legal fees (note 10a)	**-**	314,983
	1,926,640	2,118,763
Deferred royalty revenue	**166,198**	220,422
Employee future benefits obligation (note 8)	**160,187**	136,786
Long-term debt (note 5)	**1,081,000**	1,227,426
Repayable research funding (note 19)	**37,500**	-
Convertible debentures (note 6)	**-**	440,000
	3,371,525	4,143,397
SHAREHOLDERS' DEFICIENCY		
Share capital (note 9b)	**5,770,858**	5,479,202
Equity component of Convertible Debentures (note 6)	**60,000**	60,000
Contributed surplus (note 9c)	**507,188**	478,945
Deficit	**(6,889,812)**	(7,390,890)
	(551,766)	(1,372,743)
	2,819,759	2,770,654

CONTINGENCIES (note 10a and 10c)

See accompanying notes

Approved on Behalf of the Board

SIGNED: Glenn Rourke
Director

SIGNED: Edward Taylor
Director

CEAPRO INC.

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

Years ended December 31	2010	2009
	$	$
REVENUE		
Sales (note 11)	**5,576,636**	4,370,070
Cost of goods sold	**3,041,469**	2,252,024
Gross margin	**2,535,167**	2,118,046
EXPENSES		
General and administration	**1,237,240**	1,424,344
Royalties	**59,985**	250,663
Sales and marketing	**69,513**	183,693
Amortization	**37,227**	44,842
Interest on convertible debentures	**41,096**	-
Accretion on convertible debentures	**27,500**	-
Interest on long-term debt	**69,808**	77,031
	1,542,369	1,980,573
Income (loss) from operations	**992,798**	137,473
OTHER INCOME (EXPENSES)		
Research and product development	**(764,351)**	(577,629)
Write off of property and equipment	**(12,278)**	-
Other income (loss) (note 12)	**(30,074)**	(55,493)
Income (loss) before SGGF legal fee recoveries and income taxes	**186,095**	(495,649)
SGGF legal fee recoveries (note 10a)	**314,983**	426,300
NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS) FOR THE YEAR	**501,078**	(69,349)
Deficit, beginning of year	**(7,390,890)**	(7,321,541)
Deficit, end of year	**(6,889,812)**	(7,390,890)
Net income (loss) per common share:		
Basic (note 20)	**0.01**	(0.00)
Diluted (note 20)	**0.01**	(0.00)
Weighted average number of common shares outstanding	**53,219,621**	49,577,953

See accompanying notes

CEAPRO INC.
Consolidated Statements of Cash Flows

Years ended December 31	2010 $	2009 $
OPERATING ACTIVITIES		
Net income (loss) for the year	**501,078**	(69,349)
Adjustments to reconcile net income (loss) to cash provided by operating activities		
Amortization	**290,640**	356,958
Write off of property and equipment	**12,278**	-
Accretion on convertible debentures	**27,500**	-
Deferred royalty revenue	**(54,224)**	(49,647)
Employee future benefits obligation	**23,401**	(167,226)
Stock based compensation	**28,243**	104,927
	828,916	175,663
CHANGES IN NON-CASH WORKING CAPITAL ITEMS		
Accounts receivable	**(419,218)**	400,450
Inventories	**237,396**	(109,854)
Prepaid expenses and deposits	**(7,921)**	20,259
Accounts payable and accrued liabilities	**36,721**	(304,276)
SGGF legal fees	**(314,983)**	(1,151,300)
	(468,005)	(1,144,721)
	360,911	(969,058)
INVESTING ACTIVITY		
Purchase of property and equipment	**(91,092)**	(52,096)
FINANCING ACTIVITIES		
Repayment of long-term debt	**(138,806)**	(131,582)
Proceeds from convertible debenture issue	**-**	500,000
Proceeds from issuance of share capital	**-**	466,000
Repayable research funding	**50,000**	-
Share capital issue costs	**-**	(3,193)
Royalties paid	**(218,274)**	-
Increase in royalties payable	**108,449**	288,906
	(198,631)	1,120,131
Increase in cash	**71,188**	98,977
Cash at beginning of year	**115,502**	16,525
Cash at end of year	**186,690**	115,502
Supplementary information		
Interest paid	**69,808**	77,031
Royalties paid	**218,274**	-

See accompanying notes

The non-cash transactions described in notes 6 and 9(b) have been excluded from the statement of cash flows.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. NATURE OF BUSINESS OPERATIONS AND GOING CONCERN

Ceapro Inc. (the "Company") is incorporated under the Canada Business Corporations Act and is listed on the TSX Venture Exchange. The Company's primary business activities relate to the marketing and development of various health and wellness products and technology relating to plant extracts.

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 will be able to realize its assets and discharge liabilities in the normal course of operations. However, certain conditions may cast some doubt upon the validity of this assumption. Since inception, the Company has accumulated net losses, generated inconsistent 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 consistent 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. SIGNIFICANT ACCOUNTING POLICIES

a) Use of estimates

The preparation of consolidated financial statements in conformity with Canadian generally accepted accounting principles ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of the assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. 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, and the interest rates used in determining the value of employee future benefits obligation and the liability portion of convertible debentures. Actual results could differ from those estimates.

b) Principles of consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Ceapro Technology Inc., Ceapro Veterinary Products Inc., Ceapro Active Ingredients Inc., Ceapro BioEnergy Inc., Ceapro (P.E.I) Inc. and Ceapro USA Inc.

c) Cash and cash equivalents

Cash and cash equivalents are defined as amounts on deposit with financial institutions and readily convertible term deposits with a maturity of 3 months or less on inception.

d) Revenue recognition

Revenue from the sale of health and wellness products is recognized as revenue at the time the products are shipped to customers. The sale of royalty interests from royalty interest offerings are recorded as deferred royalty revenue and are recorded against royalty expense on the basis of $1 of deferred revenue recognized for every $2 of royalty expense incurred. Royalty, licenses, and product development fees are recorded in accordance with the terms of the applicable agreements.

e) Inventories

Inventory of raw materials is valued at the lower of cost and net realizable value on a first-in, first-out basis. Inventory of work-in-process and active ingredients is valued at the lower of cost and net realizable value on an average cost basis.

f) Licenses

Licenses are recorded at cost and are amortized straight-line over the life of the license.

g) Property and Equipment

Property and equipment are recorded at cost and are amortized over their estimated useful lives as follows:

Manufacturing equipment	10 years straight-line
Office equipment	20% declining balance
Computer equipment	30% declining balance
Leasehold improvements	Over the term of the lease

h) Research and product development expenditures

Research costs are expensed when incurred. Product development costs are also expensed when incurred unless they are significant and meet generally accepted criteria for deferral. Costs are reduced by government grants and investment tax credits where applicable.

i) Foreign currency

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at year end exchange rates and non-monetary assets at the exchange rates prevailing when the assets were acquired. Foreign currency denominated revenue and expense items are translated at the rate of exchange in effect at the time of the transaction. Foreign currency gains or losses arising on translation are included in income.

j) Income taxes

The liability method is used for determining income taxes. Under this method, future income tax assets and liabilities are recognized for the estimated tax recoverable or payable that would arise if assets and liabilities were recovered or settled at the financial statement carrying amounts. Future tax assets and liabilities are measured using substantively enacted tax rates expected to apply to taxable income in the year in which temporary differences are expected to be recovered or settled. Changes to these balances, including changes due to changes in income tax rates, are recognized in income in the period in which they occur. The amount of the future income tax assets recognized is limited to the amount that is more likely than not to be realized.

k) Lease obligations

Leases are classified as capital or operating leases. A lease that transfers substantially the entire benefits and risks incidental to the ownership of property is classified as a capital lease. At the inception of a capital lease, an asset and an obligation are recorded at an amount equal to the lesser of the present value of the minimum lease payments and the property's fair value at the beginning of the lease. All other leases are accounted for as operating leases wherein payments are expensed as incurred.

l) Government assistance

Government assistance is periodically granted to the Company under available government incentive programs. Government assistance relating to research and development expenditures is recorded as a reduction of the expenditures when received.

m) Investment tax credits

Investment tax credits relating to qualifying scientific research and experimental development expenditures are accrued provided there is a reasonable assurance that the credits will be realized. When recorded, the investment tax credits are accounted for as a reduction of the related expenditures.

n) Net income (loss) per common share

Basic net income (loss) per common share is computed by dividing the net income (loss) by the weighted average number of common shares outstanding during the year. Diluted per share amounts reflect the potential dilution that could occur if convertible securities and convertible debt were converted to common shares. The treasury stock method of calculating diluted per share amounts is used whereby any proceeds from the conversion of convertible securities that are in-the-money are assumed to be used to purchase common shares of the Company at the average market price during the period. The “If Converted” method is used to calculate the dilutive effect of convertible debentures. When the Company is in a net loss position, the conversion of convertible securities and debt is considered to be anti-dilutive.

o) Stock based compensation

Stock based compensation is accounted for using the fair value method whereby compensation expense related to these programs is recorded in the statement of net income (loss) and comprehensive income (loss) and deficit with a corresponding increase to contributed surplus. The fair value of options granted is determined at the date of grant and expensed over the vesting period. The value of warrants issued to agents is recorded as share issuance costs with a corresponding increase to contributed surplus.

Consideration paid on the exercise of stock options and warrants is credited to share capital. Upon the exercise of the stock options and warrants, consideration received together with the amount previously recognized in contributed surplus is recorded as an increase to share capital. The Company does not incorporate an estimated forfeiture rate for stock options and agents warrants that may not vest, but accounts for forfeitures as they occur.

p) Employee future benefits

The Company accrues its obligations under an employee defined retirement benefit plan and related costs, net of plan assets. The cost of retirement benefits earned by employees is determined using the accumulated benefit method and management's best estimate of expected plan investment performance and retirement ages of employees. Past service costs relating to plan amendments are accrued and recognized in the year the amendments occur.

q) Impairment of long-lived assets

In the event that facts and circumstances indicate that the carrying value of long-lived assets may be impaired, the Company performs a recoverability evaluation. If the evaluation indicates that the carrying value is not recoverable from undiscounted cash flows attributable to the assets, then an impairment loss is measured by comparing the carrying amount of the asset to its fair value.

r) Future accounting pronouncements

<u>IFRS</u>

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. Comparative financial information for 2010 will be required when companies begin reporting 2011 results under IFRS.

During 2010 the Company has prepared its financial statements under Canadian GAAP and 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.

3. INVENTORIES

a) The Company had the following inventory at the end of each reporting period:

	2010	2009
	$	$
Raw materials	**224,262**	218,604
Work in progress	**15,996**	135,026
Finished goods	**39,167**	163,191
	279,425	516,821

Inventories expensed in cost of goods sold during the year ended December 31, 2010 is $2,980,103 (2009 - $2,171,570). During the year ended December 31, 2010 the Company decreased the carrying value of inventory by $99,272 (2009 - $10,717) due to lower estimated realizable values from certain raw materials, work in progress and finished goods.

4. PROPERTY AND EQUIPMENT

	2010		
	Cost $	**Accumulated Amortization $**	**Net Book Value $**
Manufacturing equipment	**2,874,853**	**1,282,477**	**1,592,376**
Office equipment	**76,280**	**58,522**	**17,758**
Computer equipment	**250,364**	**180,067**	**70,297**
Leasehold improvements	**120,364**	**111,743**	**8,621**
	3,321,861	**1,632,809**	**1,689,052**

	2009		
	Cost $	Accumulated Amortization $	Net Book Value $
Manufacturing equipment	2,811,773	1,063,270	1,748,503
Office equipment	75,861	54,135	21,726
Computer equipment	240,070	152,878	87,193
Leasehold improvements	120,014	79,557	40,457
	3,247,718	1,349,840	1,897,878

Manufacturing equipment with a net book value of $176,431 will not be amortized until it is put into service.

For the year ended December 31, 2010 the total amortization of $290,640 (2009 - $356,958) was allocated as follows: $37,227 (2009 - $44,842) to amortization expense, $3,649 (2009 – 22,873) to inventory, and $249,764 (2009 - $289,243) to cost of goods sold.

5. LONG-TERM DEBT

	2010 $	2009 $
Loan payable at $17,384 per month, principal and interest at 5.49%, secured by a general security agreement, due January, 2013.	**1,227,426**	1,366,232
Less current portion	**146,426**	138,806
	1,081,000	1,227,426

Estimated principal payments due in the next three years are as follows:

	$
2011	146,426
2012	154,465
2013	926,535
	1,227,426

The effective interest rate of 5.49% is a preferred rate and the monthly payments of $17,384 reflect this preferred rate. In the event of default of any terms and conditions of the loan and enforcement of these terms and conditions by the lender, the preferred interest rate will be cancelled from the date of enforcement of the action. If such a circumstance were to arise, the interest rate would become 7.49% and result in monthly payments of $18,925. The security agreement also includes a standard subjective acceleration clause for material adverse events. The Company is in compliance with all terms and conditions.

6. CONVERTIBLE DEBENTURES

On December 31, 2009, the Company issued secured convertible debentures for cash of $500,000. The debentures bear interest at 8% per annum, mature on December 31, 2011, and are convertible at any time at a price of $0.10 per common share at the option of the holder. The debentures may be redeemed at the option of the Company upon giving notice of 60 days. The Company may satisfy interest payments through the delivery of common shares at the weighted average market price of the Common Shares for the 20 trading days the Common Shares traded on the TSX-V immediately prior to the date on which the interest obligation is due. The debenture security ranks subordinate to the Company's existing long-term debt as well as $500,000 for a potential working capital facility. Currently there is no working capital facility.

The convertible debentures contain both liability and equity components. The Company has allocated the total proceeds received between the liability and equity components of the convertible debentures using the residual method, based on a discount rate of 15%, which is the estimated cost of borrowing at which the Company could borrow similar debt without a conversion feature. Interest and accretion on the liability component will be amortized using the effective interest method until the debentures are converted or reach maturity.

	2010	2009
	$	$
Total value of convertible debentures	**527,500**	500,000
Equity component	**60,000**	60,000
Liability component	**467,500**	440,000

	2010	2009
	$	$
Interest expense	**41,096**	-
Accretion	**27,500**	-

The Company paid $20,000 of interest and converted $21,096 into 271,752 common shares for full settlement of interest. The non-cash transaction involving the issuance of common shares has been excluded from the consolidated statements of cash flows.

7. ROYALTIES PAYABLE

	2010	2009
	$	$
Royalties payable pursuant to financial assistance received (note 7 (a))	**-**	111,844
Royalties payable pursuant to royalty interest offering (note 7 (c),(d),and (e))	**378,051**	646,592
	378,051	758,436

a) In the year ended December 31, 1999, the Company received financial assistance in the amount of $164,882 for the research and development of new products, patents, and markets. The Company is obligated to pay a 5% royalty (to a maximum of two times the financial assistance received) on sales generated from products developed using these funds. The portion of this obligation paid or accrued as at December 31, 2010 was $329,764 (2009 - $329,764). In October 2010 $111,844 was repaid and the balance of royalties payable under this agreement as at December 31, 2010 was $nil (2009 - $111,844).

b) In the year ended December 31, 2004, the Company received a commitment for financial assistance totaling $250,000 for pre-market activities of CeaProve® (a health and wellness product) upon completion of project objectives as outlined and agreed to by both parties. As at December 31, 2010 $225,000 (2009 - $225,000) of this commitment has been received. The Company is obligated to pay a royalty (to a maximum of two times the financial assistance received) on sales generated from CeaProve® on the following basis: 0% of revenues earned to December 31, 2005, 2.5% of revenues earned to December 31, 2006, and 5% thereafter until repaid. No royalties have been paid or accrued during the current or prior years. The Company has repaid at December 31, 2010 $nil (2009 - $nil) of this obligation. Upon completion of the repayment of the financial assistance received, the Company will be required to repay $19,750 advanced during the year ended December 31, 2002. The portion of this obligation paid or accrued as at December 31, 2010 was $nil (2009 - $nil).

c) In the year ended December 31, 2003, the Company completed a Royalty Income Unit offering through the terms described in an Offering Memorandum. Each royalty interest has a right to receive royalties equal to 0.00001% from the sale or licensing of the Company's active ingredients and animal health products, to a maximum cumulative amount of $2.08 per unit. Proceeds from the offering of $516,348 (before related expenses) represent the sale of a 5.163% royalty interest in the Company's future sales and licensing of active ingredients and animal health products. Maximum royalties payable are two times the amount invested or $1,032,695. The portion of this obligation paid or accrued at December 31, 2010 was $1,032,695 (2009 - $1,032,695). During the year, the Company repaid $150,156 (2009 - $nil) through cash payments totaling $56,849 and by issuing 1,036,744 common shares. The balance of royalties payable under this offering as at December 31, 2010 was in arrears and totaled $170,536 (2009 - $320,692).

d) In the year ended December 31, 2003, the Company sold a 1.418% royalty interest in the Company's future sales and licensing of active ingredients and animal health products for $141,796. In the year ended December 31, 2004, the Company sold an additional 1.724% royalty interest in the future sales and licensing of active ingredients and animal health products for $172,401. The cumulative royalty interest of 3.142% for $314,197 results in combined maximum royalties of two times the amount invested or $628,394. The portion of this obligation paid or accrued at December 31, 2010 was $628,394 (2009 - $628,394). During the year, the Company repaid $108,542 (2009 - $nil) through cash payment totaling $13,634 and by issuing 1,054,533 common shares. The balance of royalties payable under this offering as at December 31, 2010 was in arrears and totaled $40,903 (2009 - $149,445).

e) On December 28, 2005 the Company sold a 2.285% royalty interest in the Company's future sales and licensing of active ingredients, animal health, and CeaProve® products for $457,000. Maximum royalties payable are two times the amount invested or $914,000. The portion of this obligation paid or accrued as at December 31, 2010 was $458,775 (2009 - $350,326). During the year, the Company repaid $118,292 ($2009 - $nil) through cash payments totaling $35,947 and by issuing 914,947 common shares. The balance of royalties payable under this offering as at December 31, 2010 was in arrears and totaled $166,612 (2009 - $176,455).

f) In the year ended December 31,2005 , the Company received a commitment for financial assistance totaling $362,250 for product innovation development in the area of Veterinary Therapeutics and Active Ingredients. As at December 31, 2010 $362,250 (2009 - $362,500) of the commitment has been received. The Company is obligated to pay a 2.5% royalty to a maximum of $75,000 per quarter (to a maximum of two times the financial assistance received or $724,500) on sales generated from products developed using these funds. These royalties will commence when the royalty payments on investment agreements in note 7(a) are fully satisfied. The portion of the obligation paid or accrued at December 31, 2010 was $nil (2009 - $nil).

g) In the year ended December 31, 2005 the Company received a commitment for financial assistance totaling $800,000 for pre-market activities of CeaProve® (a health and wellness product) upon completion of project objectives as outlined and agreed to by both parties. As at December 31, 2010 $510,000 of this commitment has been received (2009 - $510,000). The Company is obligated to pay a royalty (to a maximum of one and a half times the financial assistance received or $765,000) on sales of CeaProve® on the following basis: 0% of net sales and net sub-licensing revenues earned until royalty payments have been fully satisfied under the investment agreement in note 7(b), and 5% thereafter until repaid to a maximum of $125,000 per quarter. No royalties have been incurred during the current year. The portion of this obligation paid or accrued as at December 31, 2010 was $nil (2009 - $nil).

8. EMPLOYEE FUTURE BENEFIT OBLIGATION

The Company has an unfunded, non-registered, non-indexed defined retirement benefit plan for certain officers. The retirement benefit is two months' salary for each year they are employed by the Company. During the year ended December 31, 2008, pursuant to a termination agreement with the Company's former President and Chief Executive Officer, the Company has settled the benefit obligation with this senior officer. The Company completed all required payments under the termination agreement on December 31, 2009.

Accrued benefit obligation	**2010** **$**	2009 $
Unfunded balance, beginning of year	**136,786**	304,012
Benefits paid	**-**	(187,000)
Current service cost	**17,297**	14,871
Interest costs on accrued benefit obligation	**6,104**	4,903
	160,187	136,786

Elements of defined benefit costs recognized in the year	**2010** **$**	2009 $
Current service cost	**17,297**	14,871
Interest cost on accrued benefit obligation	**6,104**	4,903
	23,401	19,774

Management is required to make an estimate regarding the discount rate used to determine the accrued benefit obligation. This estimate is of a long-term nature, which is consistent with the nature of the employee future benefits. The discount rate used to determine the accrued benefit obligation as at December 31, 2010 was 4.19% (December 31, 2009 - 4.19%).

9. SHARE CAPITAL

a) Authorized

i) Unlimited number of Class A voting common shares. Class A common shares have no par value.

ii) Unlimited number of Class B non-voting common shares. There are no issued Class B shares.

b) Issued - Class A common shares

	2010		2009	
	Number of Shares	Amount $	Number of Shares	Amount $
Balance at beginning of year	51,710,063	5,479,202	47,050,063	5,016,395
Changes during the year				
Equity placements	-	-	4,660,000	466,000
Shares issued for debt	3,277,976	291,656	-	-
Share capital issue cost	-	-	-	(3,193)
	54,988,039	5,770,858	51,710,063	5,479,202

During the year ended December 31, 2010, the Company issued 3,006,224 common shares for the settlement of royalty payable obligations totaling $270,560 as described in notes 7(c), (d) and (e) and 271,752 common shares for full settlement of interest due on convertible debentures in the amount of $21,096 as described in note 6. The non cash transactions have been excluded from the consolidated statement of cash flows.

During the year ended December 31, 2009, the Company issued 4,660,000 common shares at $0.10 per share for gross proceeds of $466,000.

c) Contributed surplus

The following table summarizes the changes in contributed surplus:

	2010 $	2009 $
Balance at beginning of year	478,945	374,018
Stock based compensation expense (note 9 (d))	28,243	104,927
	507,188	478,945

d) Stock options and stock based compensation

The Company has granted stock options to eligible employees, directors, officers, and consultants under stock option plans that vest over periods ranging from 2 years to five years and have a maximum term of five years.

The Company accounts for options granted under these plans in accordance with the fair value based method of accounting for stock based compensation. In the current year the Company granted 650,000 (2009 - 900,000) stock options. The application of the fair value based method requires the use of certain assumptions regarding the risk-free market interest rate, expected volatility of the underlying stock and life of the options. The weighted average risk-free rate used in 2010 was 2.29% (2009 - 2.11%), the weighted average expected volatility was 126% (2009 - 112%) which was based on prior trading activity of the Company's shares, the weighted average expected life of the options was 5 years (2009 – 5 years), and the expected dividends were nil (2009 - nil). The weighted average grant date fair value of options granted during the year were $0.06 (2009 - $0.10) per option. The stock based compensation expense recorded during the current year relating to options granted in 2010, 2009, 2008, 2007 and 2006 was $28,243 (2009 - $104,927).

A summary of the status of the Company's stock options at December 31, 2010 and 2009 and changes during the years ended on those dates is as follows:

	2010		2009	
	Number of Options	**Weighted Average Exercise Price $**	Number of Options	Weighted Average Exercise Price $
Outstanding at beginning of year	**2,485,000**	**0.18**	1,810,000	0.21
Granted	**650,000**	**0.10**	900,000	0.13
Expired	**(30,000)**	**0.12**	(225,000)	0.20
Outstanding at end of year	**3,105,000**	**0.16**	2,485,000	0.18
Exercisable at end of year	**2,261,667**	**0.18**	1,314,000	0.20

The following table summarizes information about the Company's stock options outstanding:

		2010	2009
Exercise Price $	Year of Expiration	**Number of Options**	Number of Options
0.10	2015	**650,000**	-
0.13	2014	**900,000**	900,000
0.12	2013	**630,000**	660,000
0.25	2013	**210,000**	210,000
0.28	2012	**390,000**	390,000
0.30	2012	**100,000**	100,000
0.30	2011	**75,000**	75,000
0.27	2011	**150,000**	150,000
		3,105,000	2,485,000

10. CONTINGENCIES AND COMMITMENTS

a) During the year ended December 31, 2008 the Company recorded a provision for disputed legal fees from two legal firms in the amount of $741,283 that related to a settled litigation case. In 2009 the Company recorded a recovery of $426,300 of the previously disputed legal fees as one legal firm advised the Company that it would not be pursuing their claim. Based upon review by management with legal counsel during the year and the circumstances applicable at that time, management believes the Company is no longer exposed to the remaining accrued legal fee liability in the amount of $314,983. The Company recorded a recovery of $314,983 of the remaining disputed legal fees. The balance of $nil is recorded as a liability on the balance sheet in 2010 (2009 - $314,983) as SGGF legal fees.

b) During the year ended December 31, 2008, the Company entered into a licensing agreement with the University of Guelph for an exclusive variety of a mint plant. The Company paid a licensing fee of $30,000 and is amortizing the license over 10 years. The license is carried on the balance sheet at $24,000 (2009 - $27,000) which reflects accumulated amortization of $6,000 (2009 - $3,000). The amortization expense of $3,000 (2009 - $3,000) has been included in amortization on the income statement. The Company is obligated to pay the university an amount equal to 8% of net sales from products derived from the mint plants subject to minimum payments as follows:

	$
2011	12,960
2012	20,160
2013	27,360
2014	34,560
2015 to 2017	146,880
Total	241,920

For 2010 the Company recognized a minimum expense of $5,760 (2009 - $5,760) in royalty expense. Royalties payable at December 31, 2010 are $13,920 (2009 - $8,160).

c) 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.

11. SALES

Substantially all sales are export sales to five distributors of the Company's products. The Company is therefore dependent on those distributors to maintain and expand the volume of product sales to existing and new customers.

12. OTHER INCOME (LOSS)

	2010	2009
	$	$
Foreign exchange losses	**(27,641)**	(68,047)
Miscellaneous income (loss)	**(2,433)**	12,554
	(30,074)	(55,493)

13. INCOME TAXES

a) Non-capital losses.

The Company has accumulated non-capital losses carried forward for federal income tax purposes of approximately $12,222,300, and for provincial income tax purposes of approximately $12,026,000, the benefit of which has not been reflected in these consolidated financial statements. These losses may be applied against future taxable income within the limitations prescribed by the Income Tax Act and expire as follows:

	Federal $	Alberta $
2015	293,400	293,400
2026	651,500	651,500
2027	2,730,300	2,730,300
2028	5,337,500	5,141,200
2029	1,697,300	1,697,300
2030	1,512,300	1,512,300
Total	12,222,300	12,026,000

b) Capital losses.

The Company has accumulated capital losses of approximately $6,807,000, which can be carried forward indefinitely to offset future capital gains.

c) Scientific research and experimental development (SR & ED).

The Company has accumulated an SR & ED expenditure pool of approximately $1,468,200, which can be carried forward indefinitely to be applied against future taxable income.

The Company has accumulated SR & ED investment tax credits of approximately $78,700. These credits may be applied against future federal income taxes payable and expire in 2029.

d) Temporary differences.

A future income tax asset reflects the net effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's future income tax asset are as follows:

INCOME TAX EFFECT OF DEDUCTIBLE TEMPORARY DIFFERENCES:	**2010** **$**	2009 $
Non-capital losses and SR & ED expenditures carried forward	**3,403,000**	3,289,000
Net capital losses carried forward	**851,000**	851,000
SR&ED investment tax credits	**79,000**	-
Undepreciated capital cost for tax purposes in excess of net book value	**818,000**	1,073,000
Deferred revenue recognized for tax purposes	**57,000**	70,000
Employee future benefit expense not recognised for tax purposes	**40,000**	-
Valuation allowance	**(5,248,000)**	(5,283,000)
	-	-

For consolidated financial statement purposes, no future income tax asset has been recorded at December 31, 2010 and 2009 as it is not likely to be realized.

e) Income tax reconciliation.

The Company's consolidated income tax position comprises tax benefits and provisions arising from the respective tax positions of its taxable entities. The Company's income tax provision differs from that calculated by applying statutory rates for the following reasons:

	2010	2009
	$	$
Income taxes (recovery) based on federal and provincial statutory income tax rate of 28% (2009 - 29%)	**140,302**	(20,111)
Net tax effect of expenses that are (deductible) not deductible	**(17,540)**	13,942
Tax effect of current year non-capital losses not recognized	**423,453**	492,219
Tax effect of prior years non capital losses and investment tax credits applied against current taxable income	**(272,536)**	(56,946)
Tax effect relating to property and equipment	**(265,049)**	(360,439)
Tax effect of deferred revenue recognized	**(15,183)**	(14,397)
Tax effect of employee future benefit expense not recognised	**6,553**	-
Tax effect of deductible employee future benefit obligation payments	**-**	(54,268)
	-	-

14. RELATED PARTY TRANSACTIONS

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

	$	$
Royalties earned by employees and directors	**21,951**	38,699
Amounts payable to employees and directors included in royalties payable	**27,758**	84,581
Convertible debentures owned by officers and directors	**70,000**	70,000
Interest earned in convertible debentures by officers and directors	**5,753**	-
Consulting fees earned by a company controlled by a director	**150,000**	150,000
Consulting fees payable to a company controlled by a director in accounts payable and accrued liabilities	**-**	37,500
Royalties payable to employees and directors converted to common shares	**71,898**	-
Convertible debenture interest payable to officers and directors converted to common shares	**2,953**	-

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.

15. SEGMENTED INFORMATION

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

	2010	2009
	$	$
United States	**4,109,206**	2,679,371
Other	**1,467,006**	1,652,042
Canada	**424**	38,657
	5,576,636	4,370,070

16. FINANCIAL INSTRUMENTS

a) 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, repayable research funding and convertible debentures are classified as other liabilities and are also measured at amortized cost.

The fair value of accounts receivable, accounts payable, the current portion of long term debt, royalties payable and repayable research funding approximate their carrying amount due to their short-term nature. The fair value of long-term debt is estimated to approximate its carrying value because the interest rate does not differ significantly from current interest rates for similar types of borrowing arrangements. The liability component of convertible debentures was calculated using a 15% discount rate. Management considers that no events have occurred subsequent to the inception of this financing arrangement that would indicate that fair value differs substantially from carrying value.

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.

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

i) 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 81% of accounts receivable are due from three customers at December 31, 2010 and all accounts receivable are current. The Company mitigates its exposure to credit risk on its cash balances by maintaining its bank accounts with a Canadian Chartered Bank. The Company's maximum exposure to credit risk on its cash and accounts receivable is the carrying value of these items at December 31, 2010, a total of $757,052.

ii) 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 only been paid partially 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 regular 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-tem 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**	**4 - 5 years**	**Total**
	$	$	$	$
Accounts payable and accrued liabilities	862,163			862,163
Long-term debt, including interest	208,613	1,135,148		1,343,761
Royalties payable	378,051			378,051
Convertible debentures including interest	540,000			540,000
Employee future benefit obligation			184,037	184,037
Repayable research funding	12,500	37,500		50,000
Total	**2,001,327**	**1,172,648**	**184,037**	**3,358,012**

iii) Market risk:

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

(1) 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 $54,500 annually based upon 2010 U.S. dollar sales of $5,450,000. The Company does purchase some materials and services in U.S. dollars and to a very minor extent in 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	535,729	5,357	(5,357)
Financial Liabilities			
Accounts payable and accrued liabilities	46,159	(462)	462
Total increase (decrease)		4,895	(4,895)

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

(2) 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.

17. LEASE COMMITMENTS

The Company is committed to future annual payments under operating leases for manufacturing facilities and office space as follows:

2011	$165,220
2012	$4,466

18. CAPITAL DISCLOSURES

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

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

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

19. GOVERNMENT ASSISTANCE

The Company was approved for non-repayable funding in the amount of $124,000 from Alberta Ingenuity. During 2010, the Company received $20,750 which was recorded as a reduction of research and development expenses. The Company anticipates receiving an additional amount of $62,000 in 2011 and $41,250 in 2012 under this program.

The Company was approved for non-repayable funding for up to 50% of eligible costs to a maximum of $99,900 under the Growing Forward Product Development program. The Company recognized $39,824 in 2010 under this program with $22,574 recorded as a reduction of research and development expenses and $17,250 recorded as a reduction of prepaid expenses. An amount of $15,429 was included in accounts receivable at December 31, 2010 with respect to this agreement. The Company anticipates the balance of eligible funding to be received in the first quarter of 2011.

The Company was approved for non-repayable funding in the amount of $50,000 for eligible costs from the Atlantic Canada Opportunities Agency. The Company recorded $39,121 of funding in 2010 as a reduction of research and development expenses and anticipates receiving a further $10,879 in 2011 under this program. An amount of $11,272 was recorded in accounts receivable at December 31, 2010 with respect to this agreement.

The Company was approved for non-repayable funding to a maximum of $21,250 of eligible expenditures under the Novel Crops Initiative program from the Prince Edward Island Department of Agriculture. The Company recorded the amount of $5,925 as a reduction of research and development expenditures under this program. An amount of $5,925 is included in accounts receivable at December 31, 2010 with respect to this agreement. The Company anticipates receiving further funding of up to $5,000 in 2011 and $5,000 in 2012.

The Company was approved for non-repayable funding of $7,055 under the Growing Forward Lean Manufacturing Initiative. The Company recognized $5,823 as a reduction of cost of certain property and equipment and $1,232 as a reduction of research and development expenditures. The full amount of $7,055 was included in accounts receivable at December 31, 2010.

The Company received a repayable non-interest bearing contribution for research and development expenditures in the amount of $50,000 from Innovation PEI which is recorded as a repayable research funding liability on the balance sheet. The Company may be eligible for a further contribution of $50,000 in 2011. The repayable research funding is recorded at the amount drawn under the agreement which represents the estimated fair value of the obligation plus the deferred interest benefit. The contribution is repayable quarterly at a rate of one percent of sales revenue subject to a minimum payment of $12,500 per quarter.

The Company is also eligible to claim up to $1,339,625 of eligible research and development expenditures in 2011 and 2012 under the Canadian Agricultural Adaptation Program. All amounts claimed under the program are repayable interest free over eight years beginning in 2013.

20. EARNINGS PER SHARE

	2010	2009
Net income (loss) for the year	**$ 501,078**	$ (69,349)
Interest not incurred on convertible debentures if converted	**41,096**	-
Net income (loss) for the year for diluted earnings per share calculation	**542,174**	(69,349)
Weighted average number of shares outstanding	**53,219,621**	49,577,953
Potential shares to be issued for convertible debentures outstanding	**5,000,000**	-
Diluted shares outstanding	**58,219,621**	49,577,953
Earning per share - basic	**$ 0.01**	$ (0.00)
Earning per share - diluted	**$ 0.01**	$ (0.00)

Outstanding stock options have not been included in the diluted earnings per share calculation for the year ended December 31, 2010 because the options' exercise prices were greater than the average market price of the common shares during the year.

21. SUBSEQUENT EVENTS

Subsequent to the year end, the Company's directors exchanged debt obligations totaling $175,000 into 1,590,909 common shares of the Company. The transaction will be recorded in the first quarter of 2011.

Subsequent to the end of the year, the Company received the amount of $56,957 from the Canadian Agriculture Adaptation Program (see note 19).