CEAPRO
Nature Enhancing Life®

Q3 2011

Unaudited Consolidated Financial Statements for the Third Quarter ended September 30, 2011

The MD&A provides commentary on the results of operations for the periods ended September 30, 2011 and 2010, the financial position as at September 30, 2011 and the outlook of Ceapro Inc. ("Ceapro") based on information available as at November 22, 2011. The following information should be read in conjunction with the unaudited condensed consolidated financial statements as at September 30, 2011, and related notes thereto, which are prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting* ("IAS 34") of International Financial Reporting Standards (IFRS), as well as the audited consolidated financial statements and Management Discussion and Analysis (MD&A) for the year ended December 31, 2010 prepared in accordance with Canadian generally accepted accounting principles (Canadian GAAP). All comparative percentages are between the periods ended September 30, 2011 and 2010 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 our assessment of Ceapro's future plans and operations as at November 22, 2011, 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 personal care, cosmetic, medical 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, medical and animal health 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;

- An extension t*o the active ingredients* product range offering, through new plant extract products including products from unique varieties of spearmint and rosehips;

- A variety of novel manufacturing technologies including “Pressurized Green Solvent” drying technology which is currently being tested on oat beta glucan.

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 our current active ingredients;

- Developing and marketing additional high-value proprietary therapeutic natural products;

- Developing and improving manufacturing technologies to ensure efficiencies;

- Advancing new partnerships and strategic alliances to develop new commercial active ingredients and manufacturing technologies;

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, therapeutic natural ingredients;

- Producing the highest quality work possible in products, science, and business; and

- Developing personnel through guidance, opportunities, and encouragement.

To support these objectives, we believe we have strong intellectual and human capital resources and we are developing a strong base of partnerships and strategic alliances to exploit our technology. The current economic environment provides challenges in obtaining financial resources to fully exploit opportunities. To fund our operations, Ceapro relies upon revenues primarily generated from the sale of active ingredients, and the proceeds of public and private offerings of equity securities, debentures, government grants and loans 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 unaudited condensed consolidated financial statements for the quarter ended September 30, 2011 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, generated inconsistent operating cash flow and has not yet achieved consistent profitability. During 2010 and the first nine months of 2011 the Company demonstrated that it has reached the critical mass to operate profitably and generate cash flow to support its business vision. The Company has relied on the proceeds of public and private offerings of equity securities, debentures, debt, and other offerings to support the Company's operations. The Company's ability to continue as a going concern is dependant on obtaining additional financial capital, maintaining profitability, and generating positive cash flow. While there can be no assurance that the Company will be able to access capital when needed, achieve consistent profitability, or generate sufficient cash flow, the Company believes it has accomplished these goals in the first nine months of 2011 as evidenced by improvements in working capital and shareholder's deficiency.

The consolidated financial statements for the period ended September 30, 2011 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 to discontinue 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 85% of accounts receivable are due from two customers at September 30, 2011 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 September 30, 2011**,** a total of $779,835.

b) Liquidity risk:
Liquidity risk relates to the risk that the Company may encounter difficulty in meeting its financial obligations. The long-term debt matures in January 2013. Should it be required, it is the intention of the Company that refinancing will be negotiated at that time. 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. 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	4 - 7 years	Total
	$	$	$	$
Accounts payable and accrued liabilities	384,125			384,125
Long-term debt, including interest	208,613	1,059,104		1,267,717
Royalties payable	22,948			22,948
Royalty financial liability	114,250	257,062	6,608	377,920
Liability on license agreement	12,960	82,080	146,880	241,920
Convertible debentures including interest	510,000			510,000
Employee future benefit obligation	-	-	224,453	224,453
Repayable research funding	55,000	45,000		100,000
Repayable CAAP funding	-	123,081		123,081
Total	1,307,896	1,566,327	377,941	3,252,164

c) Market risk is comprised of foreign currency risk and interest rate 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 $56,450 annually based upon 2011 estimated U.S. dollar sales of $5,645,000. 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	+1% Earnings & Equity
Financial assets			
Accounts receivable	237,603	2,376	(2,376)
Financial Liabilities			
Accounts payable and accrued liabilities	124,098	(1,241)	1,241
Total increase (decrease)		1,135	(1,135)

The carrying amount of accounts receivable and accounts payable and accrued liabilities in USD represents the Company's exposure at September 30, 2011.

2. 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 by $1,541.

d) 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.

e) 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 the ability to raise capital.

Ceapro's financial statements are prepared within a framework of IFRS 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 share-based compensation, the interest rates used in determining the employee future benefits obligation, the liability portion of convertible debentures, the liability on the license agreement, and the estimated sales projections to value the royalty financial liability. 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.

f) People and Process risk:

i) Loss of key personnel

Ceapro relies on certain key employees whose skills and knowledge are critical to maintaining the Company's success. Ceapro has procedures in place to identify and retain key employees and always attempts to be competitive with compensation and working conditions.

ii) Interruption of raw material supply:

Interruption of key raw materials could significantly impact operations and our financial position. Interruption of supply could arise from weather related crop failures, or from market shortages. Ceapro attempts to purchase key raw materials well in advance of their anticipated use.

iii) Environmental issues:

Violations of safety, health and environmental regulations could limit operations and expose the Company to liability, cost and reputational impact. In addition to maintaining compliance with national and provincial standards, Ceapro maintains internal safety and health programs.

iv) Regulatory compliance:

As a natural extract producer, Ceapro is subject to various regulations and violation of these could limit markets into which we can sell. Ceapro has introduced a range of procedures which will ensure that Ceapro is well prepared for new regulations, and obligations that may be required.

Adoption of International Financial Reporting Standards

The unaudited interim condensed consolidated financial statements included in this Quarterly Report reflect the adoption of IFRS that are in effect on November 22, 2011. Periods prior to January 1, 2010 have not been restated and were in accordance with Canadian GAAP which was applied during the periods prior to the effective date of the company's adoption of IFRS. Our financial statements subsequent to this report will be prepared in accordance with IFRS.

Note 3 to the unaudited interim condensed consolidated financial statements gives further information with regards to the conversation to IFRS, including a reconciliation of key components of our financial statements previously prepared under Canadian GAAP to those under IFRS as at and for the three and nine months ended September 30, 2010, for the year ended December 31, 2010 and as at January 1, 2010.

Future Accounting Pronouncements

Financial instruments disclosure

In October 2010, the IASB issued amendments to IFRS 7 – Financial Instruments: Disclosures that enhance the disclosure requirements in relation to transferred financial assets. The amendments are effective for annual periods beginning on or after July 1, 2011, with earlier application permitted. The Company does not anticipate these amendments to have a significant impact on its consolidated financial statements.

Financial instruments

The IASB intends to replace IAS 39 - Financial Instruments: Recognition and Measurement ("IAS 39") in its entirety with IFRS 9 - Financial Instruments ("IFRS 9") in three main phases. IFRS 9 will be the new standard for the financial reporting of financial instruments that is principles-based and less complex than IAS 39. In November 2009 and October 2010, phase 1 of IFRS 9 was issued and amended, respectively, which addressed the classification and measurement of financial assets and financial liabilities. IFRS 9 requires that all financial assets be classified as subsequently measured at amortized cost or at fair value based on the company's business model for managing financial assets and the contractual cash flow characteristics of the financial assets. Financial liabilities are classified as subsequently measured at amortized cost except for financial liabilities classified as at fair value through profit or loss, financial guarantees and certain other exceptions. On August 4, 2011, the IASB published for comments an exposure draft proposing to defer the mandatory effective date of IFRS 9 from annual periods beginning on or after January 1, 2013 (with earlier application permitted) to annual periods beginning on or after January 1, 2015 (with earlier application permitted).

Consolidation

In May 2011, the IASB issued IFRS 10 – Consolidated Financial Statements ("IFRS 10"), which supersedes SIC 12 and the requirements relating to consolidated financial statements in IAS 27 – Consolidated and Separate Financial Statements. IFRS 10 is effective for annual periods beginning on of after January 1, 2013, with earlier application permitted under certain circumstances.

IFRS 10 establishes control as the basis for an investor to consolidate its investees; and defines control as an investor's power over an investee with exposure, or rights, to variable returns from the investee and the ability to affect the investor's returns through its power over the investee.

In addition, the IASB issued IFRS 12 – Disclosure of Interest in Other Entities ("IFRS 12") which combines and enhances the disclosure requirements for the Company's subsidiaries, joint arrangements, associates and unconsolidated structured entities. The requirements of IFRS 12 include reporting of the nature of risks associated with the Company's interests in other entities and the effect of those interests on the Company's consolidated financial statements.

Concurrently with the issuance of IFRS 10, IAS 27 and IAS 28 – Investments in Associates ("IAS 28") were revised and reissued as IAS 27 – Separate Financial Statements and IAS 28 – Investments in Associates and Joint Ventures to align with the new consolidation guidance. The Company does not anticipate these amendments to have a significant impact on its consolidated financial statements.

Joint ventures

In May 2011, the IASB issued IFRS 11 – Joint Arrangements ("IFRS 11"), which supersedes IAS 31 – Interest in Joint Ventures and SIC-13 – Jointly Controlled Entities – Non-Monetary Contributions by Venturers. IFRS 11 is effective for annual periods beginning on of after January 1, 2013, with earlier application permitted under certain circumstances. Under IFRS 11, joint arrangements are classified as joint operations or joint ventures based on the rights and obligations of the parties to the joint arrangements. A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement ("joint operators") have rights to the assets and obligations for the liabilities relating to the arrangement. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement ("joint ventures") have rights to the net assets of the arrangement. IFRS 11 requires that a joint operator recognizes its portion of assets, liabilities, revenues and expenses of a joint arrangement, while a joint venturer recognizes its investment in a joint arrangement using the equity method. The Company does not anticipate this amendment to have a significant impact on its consolidated financial statements.

Income taxes

In December 2010, the IASB issued an amendment to IAS 12 – Income Taxes that provide a practical solution to determining the recovery of investment properties as it relates to the accounting for deferred income taxes. The amendment is effective for annual periods beginning on or after January 1, 2012 with earlier application permitted. The Company does not anticipate this amendment to have a significant impact on its consolidated financial statements.

Fair value measurement

In May 2011, as a result of convergence project undertaken by the IASB and the US Financial Accounting Standards Board, to develop common requirements for measuring fair value and for disclosing information about fair value measurements, the IASB issued IFRS 13 – Fair value Measurement ("IFRS 13"). IFRS 13 is effective for annual periods beginning on or after January 1, 2013 with earlier application permitted. IFRS 13 defines fair value and sets out a single framework for measuring fair value which is applicable to all IFRSs that require or permit fair value measurements or disclosures about fair value measurements. IFRS 13 requires that when using a valuation technique to measure fair value, the use of relevant observable inputs should be maximized while unobservable inputs should be minimized. The Company does not anticipate the application of IFRS 13 to have a significant impact on its consolidated financial statements.

Financial statements presentation

In June 2011, the IASB issued amendments to IAS 1 – Presentation of Financial Statements ("IAS 1") that require an entity to group items presented in the Statement of Comprehensive Income on the basis of whether they may be reclassified to earnings subsequent to initial recognition. For those items presented before taxes, the amendments to IAS 1 also require that the taxes related to the two separate groups be presented separately. The amendments are effective for annual periods beginning on or after July 1, 2012 with earlier adoption permitted. The Company does not anticipate the application of the amendments to IAS 1 to have a material impact on its consolidated financial statements.

Employee Benefits

In June 2011, the IASB issued amendments to IAS 19 – Employee Benefits ("IAS 19") that introduced changes to the accounting for the defined benefit plans and other employee benefits. The amendments include elimination of the options to defer, or recognize in full in earnings, actuarial gains and losses and instead mandates the immediate recognition of all actuarial gains and losses in other comprehensive income and requires use of the same discount rate for both the defined benefit obligation and the expected asset return when calculating interest cost. Other changes include modification of the accounting for termination benefits and classification of other employee benefits. The amendments to IAS 19 are effective for annual periods beginning on or after January 1, 2013. The Company does not anticipate the application of the amendments to IAS19 to have a material impact on its consolidated financial statements.

Results of Operations

Nine Months and Quarter Ended September 30, 2011, 2010

CONSOLIDATED INCOME STATEMENT

$000s except per share data	Quarter Ended September 30 2011	%	2010	%	Nine Months Ended September 30 2011	%	2010	%
Total revenues	**1,515**	**100%**	**1,708**	**100%**	**4,234**	**100%**	**3,881**	**100%**
Cost of goods sold	887	59%	962	56%	1,904	45%	2,208	57%
Gross margin	**628**	**41%**	**746**	**44%**	**2,330**	**55%**	**1,673**	**43%**
Research and product development	339	22%	236	14%	755	18%	513	13%
General and administration	324	21%	336	20%	993	23%	961	25%
Selling and marketing	21	1%	11	1%	85	2%	50	1%
Other operating loss	8	1%	14	1%	32	1%	4	0%
Write off of property and equipment	-	0%	-	0%	-	0%	10	0%
Income (loss) from operations	**(64)**	**-4%**	**149**	**9%**	**465**	**11%**	**135**	**3%**
Finance costs	(44)	3%	(51)	3%	(142)	3%	(160)	4%
SGGF legal fees	-	0%	-	0%	-	0%	315	8%
Income (loss) before tax	**(108)**	**-7%**	**98**	**6%**	**323**	**8%**	**290**	**7%**
Income tax	-		-		-		-	
Net income (loss)	**(108)**	**-7%**	**98**	**6%**	**323**	**8%**	**290**	**7%**
Basic net income (loss) per common share	(0.002)		0.002		0.006		0.006	
Diluted net income (loss) per common share	(0.002)		0.002		0.006		0.006	

Net loss in the third quarter of 2011 of $(108,000) in comparison with net income of $98,000 in the third quarter of 2010 is mostly due to lower sales of $193,000 and increased research and product development costs of $103,000.

Net income in the nine months of 2011 of $323,000 increased in the amount of $33,000 in comparison with a net income in the nine months of 2010 $290,000. Of note, net income in the first nine months of 2010 included the recovery of a non-recurring cost of $315,000

Revenue

$000s	Quarter Ended September 30 2011	2010	Change	Nine Months Ended September 30 2011	2010	Change
Total revenues	1,515	1,708	-11%	4,234	3,881	9%

PRODUCT SALES

The sales in the third quarter of 2011 decreased by $193,000 or 11% primarily as a result of decreased sales in volumes of avenanthramides and beta glucan partially compensated by increased sales in oat oil.

The sales to the personal care industry in the first nine months of 2011 rose $353,000 or 9% primarily as a result of higher sales volumes of avenanthramides, beta glucan and oat oil, the Company’s main products.

Expenses

COST OF GOODS SOLD AND GROSS MARGIN

	Quarter Ended September 30		Change	Nine Months Ended September 30		Change
$000s	2011	2010		2011	2010	
Sales	1,515	1,708	-11%	4,234	3,881	9%
Cost of goods sold	887	962	-8%	1,904	2,208	-14%
Gross margin	628	746	-16%	2,330	1,673	39%
Cost of goods sold percentage of revenue	59%	56%		45%	57%	
Gross margin %	41%	44%		55%	43%	

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, overhead and property plant and equipment amortization the majority of costs are variable in relation to the volume of product produced or shipped.

The cost of goods sold decreased by 8% from $962,000 in the third quarter of 2010 to $887,000 in the same period of 2011. Gross margin and gross margin percentage decreased in the third quarter of 2011 in comparison with the third quarter of 2010 by 16% and 3% correspondingly due to decreased sales of 11% and cost of goods sold of 8%. A larger proportion of third quarter sales were from the sale of lower margin products.

The cost of goods sold fell by 14%, from $2,208,000 in the first nine months of 2010 to $1,904,000 in the same period of 2011. As a percentage of revenue, the cost of goods sold decreased by 12% from 57% in the first nine month of 2010 to 45% in the same period of 2011.

Gross margin for the first nine months of 2011 is higher by 39% due to higher sales by 9% and lower cost of goods sold by 14%. Gross margin have been positively impacted for the first nine months of 2011 through greater manufacturing output from operating efficiencies implemented and the use of higher quality feedstock.

RESEARCH AND PRODUCT DEVELOPMENT

	Quarter Ended September 30		Change	Nine Months Ended September 30		Change
$000s	2011	2010		2011	2010	
Salaries and benefits	179	88		431	238	
Regulatory and patents	12	34		76	105	
Other	52	61		121	91	
	243	183	32%	628	434	44%
Product development - Ceaprove®	97	53	83%	127	79	61%
Total research and product development expenditures	340	236	44%	755	513	47%

For the third quarter research and development expenses increased by 44% due to a large increase in product development and research activities. Ceaprove costs increased by 83% as a result of increased patent and contract manufacturing costs.

The same trends were responsible for an overall 47% increase in expenditures for the nine months year to date over the prior year with Ceaprove expenditures increasing 61%.

GENERAL AND ADMINISTRATION

	Quarter Ended September 30		Change	Nine Months Ended September 30		Change
$000s	2011	2010		2011	2010	
Salaries and benefits	91	80		280	259	
Consulting	51	57		149	141	
Board of Directors compensation	41	52		133	140	
Public Company Costs	18	10		51	38	
Insurance	32	29		89	85	
Accounting and Audit fees	21	19		78	66	
Legal	1	22		6	53	
Rent	22	29		62	64	
Depreciation	8	9		24	26	
Other	39	29		121	89	
Total general and administration expenses	324	336	-4%	993	961	3%

General and administration expense for the third quarter of 2011 decreased by $12,000 or 4% as a result of decreased expenses for consulting of $6,000; board of directors compensation of $11,000; rent of $7,000 and legal expenses of $21,000; there was an increase of public company costs of $8,000, insurance of $3,000 and miscellaneous expenses of $10,000.

General and administration expense for the first nine months of 2011 increased by $32,000 or 3% as a result of increased expenses for salaries and benefits of $21,000; consulting of $8,000; public company costs of $13,000; accounting and audit fees of $12,000; insurance of $4,000 and other expenses of $32,000 offsetting by decreased board of directors compensation of $7,000; legal of $47,000. Legal expenses declined by $47,000 due to lessened requirements for legal services and recoveries of previously accrued amounts.

SALES AND MARKETING

	Quarter Ended September 30		Change	Nine Months Ended September 30		Change
$000s	2011	2010		2011	2010	
Courses & Conferences	-	-		8	4	
Travel	6	-		35	15	
Other	15	11		42	31	
Total sales and marketing	21	11	91%	85	50	70%

The third quarter of 2011 showed an increase in expenditures of $10,000 or 91% versus 2010 due to targeted expansion activities.

Sales and marketing expenses in the first nine months of 2011 increased by $35,000 or 70%

The Company is currently reviewing new marketing initiatives for 2011 and anticipates continued participation at major personal care and cosmetic conferences, and travel to visit current and potential customers.

OTHER OPERATING LOSS (INCOME)

	Quarter Ended September 30		Change	Nine Months Ended September 30		Change
$000s	2011	2010		2011	2010	
Foreign exchange losses	7	14		33	4	
Other gains (income)	1	-		(1)	-	
	8	14	-43%	32	4	700%

Other operating loss is comprised of foreign exchange losses of $7,000 in the third quarter and of $33,000 in the nine months of 2011 compared to foreign exchange loss of $14,000 and $4,000 respectively in 2010. Losses were lower in the third quarter of 2011 versus 2010 as the U.S. dollar strengthened against the Canadian dollar. For the nine month period, losses were greater in 2011 versus 2010 as a result of a steady decline of the U.S. dollar versus Canadian dollar in the first six months of the year.

FINANCE COSTS

	Quarter Ended September 30		Change	Nine Months Ended September 30		Change
$000s	2011	2010		2011	2010	
Interest on royalty financial liability	11	15		39	42	
Interest on long-term loan	15	17		47	53	
Interest on convertible debentures	10	10		30	31	
Accretion of convertible debentures	8	5		23	20	
Interest on liability on license agreement	-	5		3	13	
Bank charges	-	(1)		-	-	
	44	51	-14%	142	159	-11%

As at September 30, 2011, royalty investors received royalties equal to 2.285% (2010 – 2.285%) of revenues from product sales and royalty, license, and product development fees of active ingredients and veterinary therapeutic products and *CeaProve*®, to a maximum of two times 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 will vary directly with fluctuations in eligible product sales, royalty, license and product development fees, product sales mix, and any new royalty interest offerings that may be completed.

During the third quarter of 2011 interest on royalty financial liability decreased $4,000 from 2010 as a result of lower principal values to repay.

During the third quarter of 2011 Interest on long-term debt declined $2,000 as a result of a lower principal balance of long-term debt from the same period in the previous year.

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. In the first nine months of 2011 the Company recorded interest expense on convertible debentures in the amount of $30,000 and accretion of $23,000, a decrease of $1,000 in interest compared to the first nine months of 2010 and an increase of $3,000 for accretion as the liability moved closer to its maturity date.

The Company has decreased interest expenses on the liability relating to the licensing agreement with the University of Guelph for an exclusive variety of mint plant in the amount of $10,000 during the first nine months of 2011 as license agreement terms have been renegotiated, subject to the signing of a definitive agreement.

DEPRECIATION AND AMORTIZATION EXPENSES

For the first nine months of 2011 the total depreciation of $220,000 (2010 - $257,000) was allocated as follows: $26,000 to general and administration expense (2010 - $26,000), $54,000 to inventory (2010 - $15,000), and $140,000 (2010 - $216,000) to cost of goods sold. Depreciation expenses were decreased mostly due to some property and equipment becoming fully depreciated.

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. All amounts shown are in Canadian currency.

$000s except per share data	2011 (IFRS)			2010 (IFRS)				2009 (GAAP)
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Total revenues	1,515	1,185	1,534	1,696	1,708	1,018	1,155	395
Net income (loss)	(108)	105	325	162	97	240	(46)	(634)
Basic net income (loss) per common share	(0.002)	0.002	0.006	0.003	0.002	0.005	(0.001)	(0.012)
Diluted net income (loss) per common share	(0.002)	0.002	0.006	0.003	0.002	0.005	(0.001)	(0.012)

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

CAPITAL EMPLOYED

$000s	September 30, 2011	December 31, 2010
Non-current assets	1,581	1,713
Current assets	1,480	1,107
Current liabilities	(1,658)	(1,936)
Total assets less current liabilities	1,403	884
Non-current liabilities	1,646	1,666
Shareholders' equity	(243)	(782)
Total capital employed	1,403	884

Non-current assets decreased by $132,000 due to a depreciation provision of $220,000 offset by the acquisition of $88,000 of property and equipment.

Current assets increased by $373,000 and cash increased over 2010 by $348,000. Inventories were higher by $316,000; accounts receivables and prepaid expenses were lower $291,000.

Current liabilities totaling $1,658,000 decreased by the net amount of $278,000 mostly due to a decrease in trade payables and accrued liabilities of $478,000; a net royalty interest payable decrease of $355,000; current portion of liability on license agreement decrease of $3,000; increased deferred revenue and research grant contribution in the amount of $449,000 and $17,000 respectively; an increase in current portion of long-term debt of $6,000; current portion of repayable research funding was reclassified from non-current in the amount of $37,000 and added new in the amount of $5,000; convertible debentures accretion in the amount of $24,000; and current portion of royalty financial liability increased by $20,000;

Non-current liabilities totaling $1,646,000 decreased by the net amount of $20,000 due to principal repayment of long-term debt in the amount of $115,000; decreasing royalty financial liability in the amount of $62,000; offset by increased non-current portion of repayable research funding in the amount of $45,000 while non-current portion of repayable research funding was reclassified to current in the amount of $37,000, additional accrued employee future benefit obligation of $20,000, liability on license agreement accrual of $6,000 and receipt of the CAAP loan in the amount of $123,000;

Shareholders' deficiency of $243,000 at September 30, 2011 improved by $539,000 from a shareholders' deficiency of $782,000 at December 31, 2010 due to increases in share capital of $175,000 from the conversion of debt, the recognition of stock based compensation in contributed surplus of $41,000 and net income of $323,000.

NET DEBT

$000s	September 30, 2011	December 31, 2010
Cash and cash equivalents	535	187
Current financial liabilities	785	696
Non-current financial liabilities	1,465	1,506
Total financial liabilities	2,250	2,202
NET DEBT	1,715	2,015

**Current and non-current financial liabilities include long-term debt, current portion of long term debt, convertible debentures, repayable research funding, current portion of repayable research funding, royalty financial liability ,current portion of royalty financial liability, current portion of liability on license agreement, liability on license agreement and CAAP loan.*

The Company's net debt decreased by $300,000 mostly due to cash increase in the amount of $348,000; long-term debt repayment in the amount of $109,000 offset by receipt of CAAP loan of $123,000 and repayable research funding of $50,000; royalty financial liability decreasing by $42,000; accretion of the convertible debentures increasing the liability in the amount of $23,000 and the liability on license agreement increased in the amount of $3,000.

SOURCES AND USES OF CASH

The following table outlines our sources and uses of funds during the first quarters of the current and past years.

	Quarter Ended September 30		Nine Months Ended September 30	
$000s	2011	2010	2011	2010
Sources of funds:				
Funds generated from operations (cash flow)	26	266	747	780
Changes in non-cash working capital items	67	243	108	(299)
Share capital issued, net of costs	-	-	-	-
Repayable CAAP Funding	66	-	123	-
Repayable research funding	50	50	50	50
	209	559	1,028	531
Uses of funds:				
Purchase of property and equipment	(33)	(31)	(88)	(37)
Repayment of advance from officer	-	(50)	-	-
Interest paid	(40)	(17)	(351)	(53)
Repayment of financial liability	(32)	(229)	(132)	(229)
Repayment of long term debt	(37)	(35)	(109)	(103)
	(142)	(362)	(680)	(422)
Net change in cash flows	67	197	348	109

**Cash flows provided by operating activities comprise the cash generated by operating activities less adjustments for items not affecting cash.*

Net change in cash flow decreased of $130,000 in the third quarter of 2011 in comparison with the same period of 2010. However for the nine months ended September 30, 2011, the net change in cash flow increased $239,000 from the same period in 2010.

FREE CASH FLOW*

	Quarter Ended September 30		Nine Months Ended September 30	
$000s	2011	2010	2011	2010
Cash flows provided by (used in) operating activities	53	492	504	428
Purchase of property and equipment and deposits	(33)	(31)	(88)	(37)
Free Cash InFlow (OutFlow)	20	461	416	391

**Free cash flow (available cash) represents cash flow from operating activities less capital expenditures net of proceeds from disposal. Free cash flow (FCF) represents the cash that a Company is able to generate after laying out the money required to maintain or expand its asset base. Free cash flow is important because it allows a Company to repay debt obligations and pursue opportunities that enhance shareholder value.*

Free cash flow improved in the first nine months of 2011 by $25,000 mostly due improvements of accounts receivable in the amount of $665,000 in comparison with the same period of 2010 and receiving prepayments in the amount of $466,000 which will be offsetting by placed sales order; capital expenditure were $51,000 more in the first nine months of 2011 then in the same period of 2010.

The Company estimates that the cash flows generated by its operating activities as well as cash available through other sources will be sufficient to finance its operating expenses, maintenance capital investment and debt service needs.

The Company 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 22, 2011 were 56,578,948 (November 5, 2010 – 54,988,039). In addition, 3,230,000 stock options as at November 22, 2011 (November 5, 2010 – 3,105,000) were outstanding that are potentially convertible into an equal number of common shares at various prices.

Ceapro's working capital position was ($178,000) at September 30, 2011, an improvement of $651,000 from ($829,000) at December 31, 2010.

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.

The Company was approved for non-repayable funding in the amount of $124,000 from Alberta Ingenuity. During the third quarter of 2011, the Company received $13,750 which was recorded as a reduction of research and product development expenses. The Company anticipates receiving an additional amount of $20,750 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 $21,639 in the first quarter of 2011 under this program as a reduction of research and product development expenses.

The balance of eligible funding was received in the second quarter of 2011 and this program has now been completed.

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 received $10,879 in the first quarter of 2011 under this program. This program has now been completed.

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 product development expenditures under this program in the year ended December 31, 2010. An amount of $5,925 was included in accounts receivable at December 31, 2010 with respect to this agreement and was received in the first quarter of 2011. 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 in the year ended December 31, 2010. The full amount of $7,055 was included in accounts receivable at December 31, 2010 and received in the first quarter of 2011. This program has now been completed.

The Company received a repayable non-interest bearing contribution for research and development expenditures in the amount of $100,000 from Innovation PEI which is recorded as a repayable research funding liability on the balance sheet. 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 first payment was made in October 2011.

The Company was approved for non repayable grant funding from Innovation PEI for a maximum of $100,000. During the first nine months of 2011 the company received $30,000 of the total and recognized $13,000 against eligible expenses and $17,000 as deferred revenue. The Company anticipates an additional $40,000 could be received in 2011, and the balance of $30,000 could be received in 2012.

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. The Company has received funding of $123,081 to date under this program.

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

Related Party Transactions

During the first nine months of 2011, $16,000 (2010 - $16,000) of royalties were earned by employees and directors from their investment in previous Ceapro royalty offerings. As at September 30, 2011, $4,000 (2010 - $27,000) of royalties were payable to employees and directors. During the first nine months of 2011 directors converted $175,000 of fees payable into 1,590,909 common shares of the company.

During the first nine months of 2011 officers and directors earned $4,000 of interest on convertible debentures (2010 – $4,000). As at September 30, 2011; officers and directors owned $70,000 (2010 - $70,000) of convertible debentures. As at September 30, 2011, consulting fees of $nil (2010 – $13,000) were payable to a Company controlled by a director and included in accounts payable and accrued liabilities.

During the first nine months the Company paid key management salaries, short-term benefits, consulting fees and director fees totaling $431,000 (2010 – $390,000) and key management personnel received share-based payments of $39,000 (2010 - $32,000). These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

Commitments and Contingencies

a) The Company and its wholly owned subsidiary, Ceapro Veterinary Products Inc. were served with a statement of claim from AVAC Ltd. alleging damages of $724,500. The Company has filed a statement of defense to refute the claim and believes it has strong defenses to the AVAC allegations. However at this time the outcome of the litigation is uncertain and no provisions have been made in the financial statements on account of this litigation.

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 September 30, 2011 at $22,000 (December 31, 2010 - $24,000) which reflects amortization during the first nine months of 2011 of $2,000 (2010 - $2,000). The amortization expense of $2,000 (2010 - $2,000) has been included in general and administration expense 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	41,760
2016	48,960
2017	56,160
Total	241,920

The Company has recognized a liability relating to the licensing agreement with the University of Guelph for an exclusive variety of a mint plant. As long as the Company continues to license the mint, it is obligated to pay the university an amount equal to 8% of net sales from products derived from the mint plants subject to expected minimum payments of $247,680 as at January 1, 2010. The lower thresholds for recognition under IAS 37 have resulted in the Company recognizing a liability at January 1, 2010 in the amount of $115,708 which has been recorded directly through equity. The carrying amount of this liability was $130,000 at September 30, 2011 and $127,000 at December 31, 2010.

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.

Outlook

The stage is being set to have Ceapro defined by one word: INNOVATION.

The third quarter of 2011 clearly demonstrates that Ceapro's commitment to growth is rooted in strong innovation and robust science to support its products and develop new ones. It is very apparent that innovation is critical to attracting and retaining the interest of personal care companies. Innovation is also an attribute that is highly desired by both federal and provincial governments as they are designing research, development, and commercialization funding programs. Ceapro is pleased that it has acquired a solid reputation as an innovator with these two groups.

As a result of an improved balance sheet and generous contributions from government research programs, Ceapro has been able to significantly increase its investments in Research and Development for both the three month and nine month periods of 2011 versus 2010. As Research and Development is key to Ceapro's future, we expect to maintain this trend and further increase our investments in R&D over the next twelve months.

In addition to implementing our Innovation Strategy with our highly skilled and motivated R&D people, we shall focus attention on increasing our market share for all of our products. A marketing strategy is being put in place and we expect to add in-house specialized marketing and sales resources to stimulate interest in Ceapro's products.

From a manufacturing perspective, significant efforts continued to be expended to develop manufacturing expansion plans to ensure we can efficiently manufacture our current and anticipated new portfolio and exploit new opportunities. There have been several technologies identified which can greatly enhance Ceapro efficiencies and these are being incorporated into our planning. Ceapro’s future manufacturing plans will be announced in the near term. Our anticipated new facility will incorporate high levels of quality standards and lean, efficient green processes that are now becoming mandatory in serving the global personal care industry. It is anticipated that this expansion will require significant capital investment.

We will continue to build our science and manufacturing capacity and enhance our growing reputation as an innovator. We intend to pursue selective attractive opportunities available to Ceapro and expect to sign new partnerships to exploit these opportunities.

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.

Unaudited Condensed Consolidated Financial Statements for the Third Quarter Ended September 30, 2011

Ceapro Inc.

CEAPRO INC.

Consolidated Balance Sheets

Unaudited

	September 30 2011	December 31 2010	January 1, 2010
	$	$	$
ASSETS			
Current Assets			
Cash	535,154	186,690	115,502
Accounts receivable	244,681	570,362	151,144
Inventories (note 4)	595,547	279,425	516,821
Prepaid expenses and deposits	104,699	70,230	62,309
	1,480,081	1,106,707	845,776
Non-Current Assets			
License (note 6)	21,750	24,000	27,000
Property and equipment (note 5)	1,559,261	1,689,052	1,897,878
	1,581,011	1,713,052	1,924,878
TOTAL ASSETS	3,061,092	2,819,759	2,770,654
LIABILITIES AND SHAREHOLDERS' DEFICIENCY			
Current Liabilities			
Accounts payable and accrued liabilities	384,125	862,163	846,538
Deferred Revenue (note 9)	466,284	-	-
Current portion of long-term debt (note 7)	152,415	146,426	138,806
Royalties interest payable	22,948	378,051	758,436
Current portion of royalty financial liability	83,554	63,360	49,857
Current portion of repayable research funding	55,000	12,500	-
Current portion of liability on license agreement	2,996	6,136	11,596
SGGF legal fees (note 17b)	-	-	314,983
Convertible debentures (note 8)	490,900	467,500	-
	1,658,222	1,936,136	2,120,216
Non-Current Liabilities			
Royalty financial liability	204,084	266,075	329,434
Employee future benefits obligation (note 10)	180,339	160,187	136,786
Liability on license agreement	127,376	121,168	104,112
Long-term debt (note 7)	965,929	1,081,000	1,227,426
CAAP loan (note 12)	123,081	-	-
Convertible debentures (note 8)	-	-	440,000
Repayable research funding	45,000	37,500	-
	1,645,809	1,665,930	2,237,758
Shareholders' Deficiency			
Share capital (note 11b)	5,945,858	5,770,858	5,479,202
Equity component of convertible debentures (note 8)	45,000	45,000	45,000
Contributed surplus	389,160	347,445	286,214
Deficit	(6,622,957)	(6,945,610)	(7,397,736)
	(242,939)	(782,307)	(1,587,320)
TOTAL LIABILITIES AND SHAREHOLDERS' DEFICIENCY	3,061,092	2,819,759	2,770,654

GOING CONCERN (note 1)

CONTINGENCIES (note 17)

See accompanying notes

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

	Quarters Ended September 30, 2011	Quarters Ended September 30, 2010	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
	$	$	$	$
Revenue (note 19)	1,515,096	1,708,071	4,234,179	3,881,414
Cost of goods sold	886,681	962,001	1,903,748	2,207,896
Gross margin	628,415	746,070	2,330,431	1,673,518
Research and product development	339,244	235,846	754,918	513,244
General and administration	323,911	335,654	993,167	960,748
Sales and marketing	21,116	10,759	85,226	49,875
Other operating loss (note 14)	7,878	14,477	31,975	4,124
Write off of property and equipment		-	-	10,490
Income (loss) from operations	(63,734)	149,334	465,145	135,037
Finance costs (note 15)	(44,088)	(51,042)	(142,492)	(159,579)
SGGF legal fees (note 17b)	-	-	-	314,983
Income (loss) before tax	(107,822)	98,292	322,653	290,441
Income taxes				
Current	5,000	28,000	197,000	87,000
Reduction as a result of applying non-capital losses carried forward against the current period's taxable income	(5,000)	(28,000)	(197,000)	(87,000)
Net income (loss) and comprehensive income (loss) for the period	(107,822)	98,292	322,653	290,441
Net income (loss) per common share:				
Basic	(0.00)	0.00	0.01	0.01
Diluted	(0.00)	0.00	0.01	0.01
Weighted average number of common shares outstanding	56,578,948	54,421,094	56,555,638	52,623,671

See accompanying notes

CEAPRO INC.

Consolidated Statements of Changes in Equity

Unaudited

	Share Capital (note 11b) $	Equity component of convertible debentures $	Contributed surplus $	Deficit $	Shareholders' deficiency $
Balance December 31, 2010 (note 3)	5,770,858	45,000	347,445	(6,945,610)	(782,307)
Shares issued for debt	175,000	-	-	-	175,000
Share-based payments	-	-	41,715	-	41,715
Net income and comprehensive income for the period	-	-	-	322,653	322,653
Balance September 30, 2011	5,945,858	45,000	389,160	(6,622,957)	(242,939)
Balance January 1, 2010 (note 3)	5,479,202	45,000	286,214	(7,397,736)	(1,587,320)
Shares issued for debt	291,656				291,656
Share based payments	-	-	52,079	-	52,079
Net income and comprehensive income for the period	-	-	-	290,441	290,441
Balance September 30, 2010	5,770,858	45,000	338,293	(7,107,295)	(953,144)

See accompanying notes

CEAPRO INC.
Consolidated Statements of Cash Flows
Unaudited

	Nine Months Ended September 30, 2011 $	2010 $
OPERATING ACTIVITIES		
Net income for the period	322,653	290,441
Adjustments to reconcile net income to cash provided by operating activities		
Interest expense	119,091	139,338
Depreciation and amortization	219,868	256,914
Write off of property and equipment	-	10,490
Accretion on convertible debentures	23,400	20,241
Employee future benefits obligation	20,152	10,872
Share-based payments	41,715	52,079
	746,879	780,375
CHANGES IN NON-CASH WORKING CAPITAL ITEMS		
Accounts receivable	325,682	(364,349)
Inventories	(316,122)	139,403
Prepaid expenses and deposits	(34,468)	(9,630)
Deferred revenue	466,284	-
Accounts payable and accrued liabilities	(333,315)	(64,998)
	108,061	(299,574)
	854,940	480,801
Interest paid	(350,957)	(53,054)
CASH GENERATED FROM OPERATIONS	503,983	427,747
INVESTING ACTIVITY		
Purchase of property and equipment	(87,827)	(36,744)
FINANCING ACTIVITIES		
Repayment of long-term debt	(109,083)	(103,406)
Repayable CAAP Funding	123,081	-
Repayable research funding	50,000	50,000
Repayment of royalty financial liability	(131,690)	(228,490)
	(67,692)	(281,896)
Increase in cash	348,464	109,107
Cash at beginning of period	186,690	115,502
Cash at end of period	535,154	224,609

See accompanying notes

The non-cash transaction described in note 11 (b) has 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 Company's head office address is Suite 4174 Enterprise Square, 10230 Jasper Avenue, Edmonton, AB T5J 4P6.

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) Statement of Compliance

The Company prepares its financial statements in accordance with Canadian generally accepted accounting principles as set out in the Handbook of the Canadian Institute of Chartered Accountants ("CICA Handbook"). In 2010, the CICA Handbook was revised to incorporate International Financial Reporting Standards ("IFRS"), and requires publicly accountable enterprises to apply such standards effective for years beginning on or after January 1, 2011. Accordingly, the Company commenced reporting on this basis in its 2011 interim consolidated financial statements. In these financial statements, the term "Canadian GAAP" refers to Canadian GAAP before the adoption of IFRS.

These interim condensed consolidated financial statements have been prepared in accordance with IFRS applicable to the preparation of interim financial statements, including IAS 34, Interim Financial Reporting, and IFRS 1, First-time Adoption of International Financial Reporting Standards*.* The accounting policies followed in these interim financial statements are the same as those applied in the Company's interim financial statements for the period ended March 31, 2011 and are disclosed below. The Company has consistently applied the same accounting policies throughout all periods presented, as if these policies had always been in effect. Note 3 discloses the impact of the transition to IFRS on the Company's reported equity as at September 30, 2010 and comprehensive income for the three and nine months ended September 30, 2011, including the nature and effect of significant changes in accounting policies from those used in the Company's consolidated financial statements for the year ended December 31, 2010.

The accounting policies applied in these condensed interim consolidated financial statements are based on IFRS effective for the year ended December 31, 2011, as issued and outstanding as of November 22, 2011, the date the Board of Directors approved the statements. Any subsequent changes to IFRS that are given effect in the Company's annual consolidated financial statements for the year ending December 31, 2011 could result in restatement of these interim consolidated financial statements, including transition adjustments recognized on change-over to IFRS.

Certain information and disclosures normally required to be included in notes to the annual consolidated financial statements have been condensed or omitted. Accordingly these interim financial statements should also be read in conjunction with the Company's consolidated financial statements for the year ended December 31, 2010.

b) Basis for Presentation

These unaudited condensed consolidated interim financial statements have been prepared on the historical cost basis. All transactions are recorded on an accrual basis.

The consolidated interim 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.

All intercompany accounts and transactions have been eliminated on consolidation.

c) Use of estimates

The preparation of consolidated financial statements in conformity with IFRS requires management to make critical judgments, estimates and assumptions that affect the reported amounts of certain assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses recorded during the reporting period. In making estimates and judgments, management relies on external information and observable conditions where possible, supplemented by internal analysis as required.

Estimates and assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

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 share-based compensation, the interest rates used in determining the value of employee future benefits obligation, the liability portion of convertible debentures, the liability on the license agreement, and the estimated sales projections used to value the royalty financial liability. Actual results could differ from those estimates.

d) Cash and cash equivalents

Cash and cash equivalents include cash on hand, demand deposits and all highly liquid short-term investments with original maturities of three months or less.

e) Revenue recognition

Revenues from the sale of health and wellness products are recognized as revenues at the time the products are shipped to customers, title passes, significant risks and rewards have been transferred and collectability is reasonably assured. Revenues are measured at the fair value of consideration received or receivable, less a provision for uncollectible amounts, excluding discounts, rebates and sales taxes.

f) Inventories

Inventories are valued at the lower of cost and net realizable value.

Costs of inventory include costs of purchase, cost of conversion and any other costs incurred in bringing the inventories to their present location and condition. Costs of conversion include direct costs (materials and labor) and indirect costs (fixed and variable production overheads). Fixed overheads are allocated based on normal capacity. Raw Materials are assigned costs by using a first-in-first-out cost formula and work-in-progress and finished goods are assigned costs by using a weighted average cost formula.

Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

g) Property and Equipment

Property and equipment are recorded at cost less accumulated depreciation and any accumulated impairment losses. Depreciation methods and rates are calculated 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

Cost for property and equipment includes the purchase price, import duties, non-refundable taxes and any other costs directly attributable to bringing the asset into the location and condition to be capable of operating. Significant parts of an item of property and equipment with different useful lives are recognized and depreciated separately. Depreciation commences when the asset is available for use. The assets residual values, useful lives and method of depreciation are reviewed at each financial year end and adjustments are accounted for prospectively if appropriate. An item of property and equipment is derecognized on disposal or when no future economic benefits are expected from its use. Any gain or loss arising on derecognition of an asset is included in the income statement in the period the asset is derecognized.

h) Borrowing costs

Borrowing costs are capitalized when such costs are directly attributable to the acquisition, construction or production of a qualifying asset. A qualifying asset is an asset that necessarily takes a substantial period of time to prepare for its intended use. All other borrowing costs are recognized as an expense in the period in which they are incurred.

i) Asset Impairment

The carrying amounts of property and equipment and intangible assets with a finite life are reviewed for impairment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. If such indication exists, the Company estimates the recoverable amount of the assets, which is the higher of its fair value less cost to sell and its value in use. Value in use is estimated as the present value of future cash flows generated by this asset (or group of assets) including eventual disposal. If the recoverable amount of an asset is less than its carrying amount, the carrying amount is reduced to its recoverable amount and an impairment loss is recognized immediately in the profit or loss statement. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the lesser of the revised estimated recoverable amount and the carrying amount that would have been recorded had no impairment loss been recognized previously. Any such recovery is recognized immediately in the profit or loss statement.

j) Leases

Leases are classified as finance or operating leases. A lease is classified as a finance lease if it effectively transfers substantially the entire risks and rewards incidental to ownership.

At the commencement of the lease the Company recognizes finance leases as an asset acquisition and an assumption of an obligation in the consolidated balance sheet at amounts equal to the lower of the fair value of the leased property or, the present value of the minimum lease payments. The discount rate to be used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease, if this is practicable to determine; if not, the incremental borrowing rate is used. The interest element of the lease payment is recognized as finance cost over the lease term to achieve a constant periodic rate of interest on the remaining balance of the liability. Any initial direct costs of the lessee are added to the amount recognized as an asset. The useful life and depreciation method is determined on a consistent basis with the Company's policies for property and equipment. The asset is depreciated over the shorter of the lease term and its useful life.

All other leases are accounted for as operating leases, wherein payments are expensed on a straight-line basis over the term of the lease.

k) Intangible assets

Licenses

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

Research and product development expenditures

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

Following initial capitalization of product development expenditures, the asset is carried at cost less accumulated amortization and any accumulated impairment losses. Amortization commences when product development is completed and the asset is available for use. It is amortized over the period of expected future economic benefit. The expected lives of assets are reviewed on an annual basis and if necessary, changes in useful lives are accounted for prospectively.

l) Trade receivables

Trade receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognized in the income statement within operating costs. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against other operating costs in the income statement.

m) Foreign Currency Transactions

The Canadian dollar is the functional and presentation currency of the Company and each of the Company's subsidiaries.

Foreign currency monetary assets and liabilities of the Company and its subsidiaries are translated using the period end closing rate and non-monetary assets and liabilities, measured at historic cost, are translated at the rate of exchange at the date of the transaction. Foreign currency transactions are translated at the spot exchange rate which is in effect at the date of the transaction. Foreign currency gains or losses arising on translation are included in other operating income (loss) in the income statement.

n) Income taxes

Income tax expense comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case the tax expense is also recognized directly in equity.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates and laws enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred income tax assets and liabilities are provided for using the liability method on temporary differences between the tax bases and carrying amounts of assets and liabilities. Deferred 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 profit or loss in the period in which they occur.

Deferred tax assets are recognized to the extent future recovery is probable. Deferred tax assets are reduced to the extent it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

o) Government assistance

Government grants are recognized where there is a reasonable assurance that grant will be received and all attached conditions will be complied with. Government grants are recognized as an offset to expenses over the periods in which the Company recognizes expenses which the grants are intended to compensate. Government grants related to assets are recognized as cost reduction of the assets and reduce depreciation over the expected useful life of the related assets.

p) Investment tax credits

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

q) 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 the Company's convertible securities and convertible debentures were converted to common shares. Diluted income (loss) per common share is calculated by adjusting the profit or loss attributable to common shareholders and the weighted average number of common shares outstanding for the effect of all dilutive potential common shares. When the Company is in a net loss position, the conversion of convertible securities and debt is considered to be anti-dilutive.

r) Share-based payments

The Company issues equity-settled share-based awards to eligible employees, directors, officers and consultants under stock option plans that vest over periods ranging from 2 years to 5 years and have a maximum term of five years. Share-based payments are 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 with a corresponding increase to contributed surplus. The fair value of options granted is determined using Black-Scholes-Merton pricing model at the grant date and expensed over the vesting period. Expected forfeitures are estimated at the date of grant and subsequently adjusted if further information indicates estimated forfeitures will change. Upon the exercise of the stock options consideration received together with the amount previously recognized in contributed surplus is recorded as an increase to share capital.

s) Convertible debentures

Certain financial instruments comprise a liability and an equity component. The various components of these instruments are accounted for in equity and other financial liabilities according to their classification, as defined in IAS 32 “Financial Instruments: Disclosure and Presentation”. The component classified as other financial liabilities is valued at issuance at the present value (taking into account the credit risk at issuance date) of the future cash flows (including interest and repayment of the nominal value) of an instrument with the same characteristics (maturity, cash flows) but without any option for conversion or redemption in shares. The component classified as equity is defined as the difference between the fair value of the total instrument and the fair value of the financial liability component.

The financial liability component is subsequently measured at amortized cost using the effective interest rate method. The finance costs recognized in respect of the convertible debentures include interest expense based on the coupon rate of the debenture and the accretion of the liability component to the amount that will be payable on redemption.

t) Employee future benefits

The Company accrues its obligations under an employee defined retirement benefit plan and related costs. The cost of retirement benefits earned by employees is determined using the projected unit credit method and management's best estimate of expected retirement ages of employees. The discount rate used is based on the interest rates for high quality corporate bonds. Past service costs relating to plan amendments are accrued and recognized in the year the amendments occur. The Company recognizes actuarial gains and losses in the income statement.

u) Provisions

A provision is recognized when the Company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation, and a reliable estimate of the obligation can be made. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. The unwinding of the discount is recognized as a finance cost.

v) Trade and other payables

Trade and other payables, including accruals, are recorded when the Company is required to make future payments as a result of purchases of assets or services. Trade and other payables are recognized initially at fair value and are subsequently measured at amortized cost using the effective interest rate method.

w) Financial Instruments

All financial instruments are measured at initial recognition at fair value plus any transaction costs that are directly attributable to the acquisition of the financial instruments except for transaction costs related to financial instruments classified as at fair value through profit or loss ("FVTPL") which are expensed as incurred. The Company has designated its financial instruments as follows:

i) Cash and cash equivalents and accounts receivable have been classified as loans and receivables and are measured at amortized cost using the effective interest method, less any allowance for uncollectability. The Company recognizes purchase or sale of financial assets using trade date accounting.

ii) Accounts payable and accrued liabilities, long-term debt, the debt component of convertible debentures, royalties payable, repayable research funding, the royalty financial liability, the liability on license agreement and the CAAP loan are classified as financial liabilities and are measured at amortized cost using the effective interest rate method.

x) Consolidated statement of cash flows

The Company prepares its consolidated statement of cash flows using the indirect method.

y) Future Changes in Accounting Policies

<u>Financial instruments disclosure</u>

In October 2010, the IASB issued amendments to IFRS 7 – Financial Instruments: Disclosures that enhance the disclosure requirements in relation to transferred financial assets. The amendments are effective for annual periods beginning on or after July 1, 2011, with earlier application permitted.

The Company does not anticipate these amendments to have a significant impact on its consolidated financial statements.

<u>Financial instruments</u>

The IASB intends to replace IAS 39 - Financial Instruments: Recognition and Measurement ("IAS 39") in its entirety with IFRS 9 - Financial Instruments ("IFRS 9") in three main phases. IFRS 9 will be the new standard for the financial reporting of financial instruments that is principles-based and less complex than IAS 39. In November 2009 and October 2010, phase 1 of IFRS 9 was issued and amended, respectively, which addressed the classification and measurement of financial assets and financial liabilities. IFRS 9 requires that all financial assets be classified as subsequently measured at amortized cost or at fair value based on the company's business model for managing financial assets and the contractual cash flow characteristics of the financial assets. Financial liabilities are classified as subsequently measured at amortized cost except for financial liabilities classified as at fair value through profit or loss, financial guarantees and certain other exceptions. On August 4, 2011, the IASB published for comments an exposure draft proposing to defer the mandatory effective date of IFRS 9 from annual periods beginning on or after January 1, 2013 (with earlier application permitted) to annual periods beginning on or after January 1, 2015 (with earlier application permitted).

Consolidation

In May 2011, the IASB issued IFRS 10 – Consolidated Financial Statements ("IFRS 10"), which supersedes SIC 12 and the requirements relating to consolidated financial statements in IAS 27 – Consolidated and Separate Financial Statements. IFRS 10 is effective for annual periods beginning on of after January 1, 2013, with earlier application permitted under certain circumstances.

IFRS 10 establishes control as the basis for an investor to consolidate its investees; and defines control as an investor's power over an investee with exposure, or rights, to variable returns from the investee and the ability to affect the investor's returns through its power over the investee.

In addition, the IASB issued IFRS 12 – Disclosure of Interest in Other Entities ("IFRS 12") which combines and enhances the disclosure requirements for the Company's subsidiaries, joint arrangements, associates and unconsolidated structured entities. The requirements of IFRS 12 include reporting of the nature of risks associated with the Company's interests in other entities and the effect of those interests on the Company's consolidated financial statements.

Concurrently with the issuance of IFRS 10, IAS 27 and IAS 28 – Investments in Associates ("IAS 28") were revised and reissued as IAS 27 – Separate Financial Statements and IAS 28 – Investments in Associates and Joint Ventures to align with the new consolidation guidance.

The Company does not anticipate this amendment to have a significant impact on its consolidated financial statements.

Joint ventures

In May 2011, the IASB issued IFRS 11 – Joint Arrangements ("IFRS 11"), which supersedes IAS 31 – Interest in Joint Ventures and SIC-13 – Jointly Controlled Entities – Non-Monetary Contributions by Venturers. IFRS 11 is effective for annual periods beginning on of after January 1, 2013, with earlier application permitted under certain circumstances. Under IFRS 11, joint arrangements are classified as joint operations or joint ventures based on the rights and obligations of the parties to the joint arrangements. A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement ("joint operators") have rights to the assets and obligations for the liabilities relating to the arrangement. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement ("joint ventures") have rights to the net assets of the arrangement. IFRS 11 requires that a joint operator recognizes its portion of assets, liabilities, revenues and expenses of a joint arrangement, while a joint venturer recognizes its investment in a joint arrangement using the equity method.

The Company does not anticipate these amendments to have a significant impact on its consolidated financial statements.

Income taxes

In December 2010, the IASB issued an amendment to IAS 12 – Income Taxes that provide a practical solution to determining the recovery of investment properties as it relates to the accounting for deferred income taxes. The amendment is effective for annual periods beginning on or after January 1, 2012 with earlier application permitted.

The Company does not anticipate this amendment to have a significant impact on its consolidated financial statements.

Fair value measurement

In May 2011, as a result of convergence project undertaken by the IASB and the US Financial Accounting Standards Board, to develop common requirements for measuring fair value and for disclosing information about fair value measurements, the IASB issued IFRS 13 – Fair value Measurement (“IFRS 13”). IFRS 13 is effective for annual periods beginning on or after January 1, 2013 with earlier application permitted. IFRS 13 defines fair value and sets out a single framework for measuring fair value which is applicable to all IFRSs that require or permit fair value measurements or disclosures about fair value measurements. IFRS 13 requires that when using a valuation technique to measure fair value, the use of relevant observable inputs should be maximized while unobservable inputs should be minimized.

The Company does not anticipate the application of IFRS 13 to have a significant impact on its consolidated financial statements.

Financial statements presentation

In June 2011, the IASB issued amendments to IAS 1 – Presentation of Financial Statements (“IAS 1”) that require an entity to group items presented in the Statement of Comprehensive Income on the basis of whether they may be reclassified to earnings subsequent to initial recognition. For those items presented before taxes, the amendments to IAS 1 also require that the taxes related to the two separate groups be presented separately. The amendments are effective for annual periods beginning on or after July 1, 2012 with earlier adoption permitted.

The Company does not anticipate the application of the amendments to IAS 1 to have a material impact on its consolidated financial statements.

Employee Benefits

In June 2011, the IASB issued amendments to IAS 19 – Employee Benefits (“IAS 19”) that introduced changes to the accounting for the defined benefit plans and other employee benefits. The amendments include elimination of the options to defer, or recognize in full in earnings, actuarial gains and losses and instead mandates the immediate recognition of all actuarial gains and losses in other comprehensive income and requires use of the same discount rate for both the defined benefit obligation and the expected asset return when calculating interest cost. Other changes include modification of the accounting for termination benefits and classification of other employee benefits. The amendments to IAS 19 are effective for annual periods beginning on or after January 1, 2013.

The Company does not anticipate the application of the amendments to IAS 19 to have a material impact on its consolidated financial statements.

3. TRANSITION TO IFRS

The Company has adopted IFRS effective January 1, 2011. Prior to the adoption of IFRS the Company prepared its financial statements in accordance with Canadian GAAP. The Company’s financial statements for the year ending December 31, 2011 will be the first annual financial statements that comply with IFRS. Accordingly, the Company will make an unreserved statement of compliance with IFRS beginning with its 2011 annual financial statements. The Company’s transition date is January 1, 2010 (the “transition date”) and the Company has prepared its opening IFRS balance sheet at that date. These financial statements have been prepared in accordance with the accounting policies described in Note 2.

An explanation as to how the transition from Canadian GAAP to IFRS has affected the Company’s financial position, financial performance, and cash flows, is set out in the following reconciliations and explanatory notes that accompany the reconciliations.

a) Elected exemptions from full retrospective application

In preparing these consolidated financial statements in accordance with IFRS 1 *First-time Adoption of International Financial Reporting Standards* ("IFRS 1"), the Company has applied certain of the optional exemptions from full retrospective application of IFRS. The optional exemptions applied are described below.

i) Employee benefits

The Company has elected to recognize all cumulative actuarial gains and losses that existed at the transition date in opening retained earnings for its employee future benefit plan. The application of this exemption did not result in an IFRS transition adjustment to the opening balance sheet on the transition date;

The Company has elected to disclose the amounts required under IAS 19 *Employee Benefits* as the amounts are determined for each accounting period prospectively from the transition date to IFRS;

ii) Share-based payment transactions

The Company has elected not to apply IFRS 2 *Share-based Payment* to equity instruments granted that had vested by the date of transition to IFRS;

iii) Business combinations

The Company has elected not to apply IFRS 3 *Business Combinations* retrospectively to business combinations that occurred before the date of transition to IFRS;

iv) Lease

The Company has applied the transitional provisions in IFRIC 4 *Determining whether an Arrangement contains a Lease* and has chosen to determine whether an arrangement existing at the date of transition to IFRS contains a lease on the basis of facts and circumstances existing at that date;

v) Compound financial instruments

The Company has elected not to identify separately the amounts within equity that are attributable to the equity and liability elements of convertible debentures issued prior to the date of transition where the liability component is no longer outstanding at the date of transition to IFRS;

vi) Borrowing costs

The Company has elected to apply the transitional provisions of IFRS 23 *Borrowing Costs* and will only commence the capitalization of borrowing costs that are directly attributable to the acquisition and construction of qualifying assets for which the commencement date is subsequent to the date of transition to IFRS.

b) Mandatory exceptions to retrospective application

In preparing these consolidated financial statements in accordance with IFRS 1 the Company has applied certain mandatory exceptions from full retrospective application of the IFRS. The mandatory exception that is applicable to the Company on its conversion to IFRS is described below.

Estimates

Hindsight was not used to create or revise estimates. The Company's estimates in accordance with IFRS at the date of transition are consistent with estimates made for the same date in accordance with previous Canadian GAAP.

c) Reconciliation of the Company's equity reported in accordance with Canadian GAAP to its equity in accordance with IFRS

Reconciliation of the Company's equity at January 1, 2010

		Previous Canadian GAAP	Effect of transition to IFRS	IFRS
		$	$	$
ASSETS				
Current Assets				
Cash		115,502		115,502
Accounts receivable		151,144		151,144
Inventories (note 4)		516,821		516,821
Prepaid expenses and deposits		62,309		62,309
		845,776		845,776
Non-Current Assets				
License (note 6)		27,000		27,000
Property and equipment (note 5)		1,897,878		1,897,878
		1,924,878		1,924,878
TOTAL ASSETS		2,770,654		2,770,654
LIABILITIES AND SHAREHOLDERS' DEFICIENCY				
Current Liabilities				
Accounts payable and accrued liabilities		846,538		846,538
Current portion of long-term debt (note 7)		138,806		138,806
Royalties payable		758,436		758,436
Current portion of royalty financial liability	(iv)	60,000	(10,143)	49,857
Current portion of liability on license agreement	(iii)	-	11,596	11,596
SGGF legal fees (note 16b)		314,983		314,983
		2,118,763	1,453	2,120,216
Non-Current Liabilities				
Royalty financial liability	(iv)	220,422	109,012	329,434
Employee future benefits obligation (note 10)		136,786		136,786
Liability on license agreement	(iii)	-	104,112	104,112
Long-term debt (note 7)		1,227,426		1,227,426
Convertible debentures (note 8)		440,000		440,000
		2,024,634	213,124	2,237,758
Shareholders' Deficiency				
Share capital (note 11b)		5,479,202		5,479,202
Equity component of convertible debentures (note 8)	(ii)	60,000	(15,000)	45,000
Contributed surplus	(i)	478,945	(192,731)	286,214
Deficit		(7,390,890)	(6,846)	(7,397,736)
		(1,372,743)	(214,577)	(1,587,320)
TOTAL LIABILITIES AND SHAREHOLDERS' DEFICIENCY		2,770,654	-	2,770,654

Reconciliation of the Company's equity at September 30, 2010

		Previous Canadian GAAP	Effect of transition to IFRS	IFRS
		$	$	$
ASSETS				
Current Assets				
Cash		224,609		224,609
Accounts receivable		515,493		515,493
Inventories		377,418		377,418
Prepaid expenses and deposits		71,939		71,939
		1,189,459		1,189,459
Non-Current Assets				
License		24,750		24,750
Property and equipment		1,669,468		1,669,468
		1,694,218		1,694,218
TOTAL ASSETS		2,883,677		2,883,677
LIABILITIES AND SHAREHOLDERS' DEFICIENCY				
Current Liabilities				
Accounts payable and accrued liabilities	(iii)	878,134	4,320	882,454
Current portion of long-term debt		132,736		132,736
Royalties payable		565,744		565,744
Current portion of royalty financial liability	(iv)	60,000	1,579	61,579
Current portion of liability on license agreement	(iii)	-	7,501	7,501
		1,636,614	13,400	1,650,014
Non-Current Liabilities				
Royalty financial liability	(iv)	181,488	100,426	281,914
Employee future benefits obligation		147,658		147,658
Liability on license agreement	(iii)	-	116,904	116,904
Long-term debt		1,130,090		1,130,090
Repayable research funding		50,000		50,000
Convertible debentures		460,241		460,241
		1,969,477	217,330	2,186,807
Shareholders' Deficiency				
Share capital		5,770,858		5,770,858
Equity component of convertible debentures	(ii)	60,000	(15,000)	45,000
Contributed surplus	(i)	534,480	(196,187)	338,293
Deficit		(7,087,752)	(19,543)	(7,107,295)
		(722,414)	(230,730)	(953,144)
TOTAL LIABILITIES AND SHAREHOLDERS' DEFICIENCY		2,883,677	-	2,883,677

Reconciliation of the Company's equity at December 31, 2010

		Previous Canadian GAAP	Effect of transition to IFRS	IFRS
		$	$	$
ASSETS				
Current Assets				
Cash		186,690		186,690
Accounts receivable		570,362		570,362
Inventories (note 4)		279,425		279,425
Prepaid expenses and deposits		70,230		70,230
		1,106,707		1,106,707
Non-Current Assets				
License (note 6)		24,000		24,000
Property and equipment (note 5)		1,689,052		1,689,052
		1,713,052		1,713,052
TOTAL ASSETS		2,819,759		2,819,759
LIABILITIES AND SHAREHOLDERS' DEFICIENCY				
Current Liabilities				
Accounts payable and accrued liabilities		862,163		862,163
Current portion of long-term debt (note 7)		146,426		146,426
Royalties payable		378,051		378,051
Current portion of royalty financial liability	(iv)	60,000	3,360	63,360
Convertible debentures (note 8)		467,500		467,500
Current portion of liability on license agreement	(iii)	-	6,136	6,136
Current portion of repayable research funding		12,500		12,500
		1,926,640	9,496	1,936,136
Non-Current Liabilities				
Royalty financial liability	(iv)	166,198	99,877	266,075
Employee future benefits obligation (note 10)		160,187		160,187
Liability on license agreement	(iii)	-	121,168	121,168
Long-term debt (note 7)		1,081,000		1,081,000
Repayable research funding		37,500		37,500
		1,444,885	221,045	1,665,930
Shareholders' Deficiency				
Share capital (note 11b)		5,770,858		5,770,858
Equity component of convertible debentures (note 8)	(ii)	60,000	(15,000)	45,000
Contributed surplus	(i)	507,188	(159,743)	347,445
Deficit		(6,889,812)	(55,798)	(6,945,610)
		(551,766)	(230,541)	(782,307)
TOTAL LIABILITIES AND SHAREHOLDERS' DEFICIENCY		2,819,759	-	2,819,759

i) <u>Share-based payments</u>

The company recognizes share-based compensation expense for the fair value of stock options granted under Canadian GAAP and IFRS. However, the timing and amount of expense may differ.

Under Canadian GAAP, if the expected life of an award that vests over a number of periods does not differ significantly the award can be treated as one grant and the related compensation can be recognized on a straight-line basis. Additionally a company could elect either to estimate the expected forfeiture rate at the date of grant or recognize forfeitures as they occurred. Under IFRS when an award vests over a number of periods each vesting tranche is treated as a separate grant with a separate vesting date and fair value. The application of an estimated forfeiture rate for stock option grants is required.

The company previously recognized forfeitures as they occurred and recognized compensation expense on a straight-line basis. On the date of transition the Company recognized an adjustment to decrease the contributed surplus balance by $21,689, at September 30, 2010 and at December 31, 2010 the Company recognized additional adjustments to decrease the contributed surplus balance by $3,456 and to increase the contributed surplus balance by $32,988 respectively. These entries have been recorded directly through equity.

Under IFRS 2 “Share-based Payment” the Company cannot make a subsequent adjustment to equity after vesting date. However, the requirement does not preclude the Company from recognizing a transfer within equity. On the date of transition the Company has transferred from contributed surplus, share-based payments in the amount of $171,042, relating to stock options that were fully vested and expired prior to January 1, 2010. The transfer was made through equity.

ii) <u>Income taxes</u>

The Company issued convertible debentures during the year ended December 31, 2009. Under Canadian GAAP it is expected that a compound instrument can be settled without the incidence of tax. The tax basis of the liability component is considered equal to its carrying amount and no temporary difference with respect to deferred tax arises. Under IFRS the tax base of the liability component is equal to the sum of the liability and equity components which results in a taxable temporary difference. As a result the Company recorded a deferred tax liability on the date of transition in the amount of $15,000 of which the offset was charged directly against the equity component of the convertible debentures. Concurrent with this transaction the Company also recognized a deferred tax asset on previously unrecognized deductible temporary differences. This entry has been recorded directly through equity on transition. No additional adjustments for this difference were made at September 30, 2010 and at December 31, 2010.

Under Canadian GAAP when an asset is transferred between enterprises within a consolidated group, a deferred tax asset should not be recognized in the consolidated financial statements for a temporary difference arising between the tax basis of the asset in the buyer’s tax jurisdiction and its cost as reported in the consolidated financial statements. Under IFRS a deferred tax asset is recognized for the difference in the tax basis of the buyer and the cost as reported in the consolidated financial statements as a result of intra-group transfers. On the date of transition this results in additional tax effected deductible temporary differences of $656,159, however, as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilized, a deferred tax asset has not been recognized.

iii) <u>Liability on license agreement</u>

The Company has recognized a liability relating to the licensing agreement with the University of Guelph for an exclusive variety of a mint plant. As long as the Company continues to license the mint, it is obligated to pay the university an amount equal to 8% of net sales from products derived from the mint plants subject to expected minimum payments of $247,680 as at January 1, 2010 and $241,920 as at December 31, 2010. The lower thresholds for recognition under IAS 37 have resulted in the Company recognizing a liability at January 1, 2010 in the amount of $115,708, at September 30, 2010 in the amount of $124,405 with additional accrued accounts payable for year end payment in the amount of $4,320 and at December 31, 2010 in the amount of $127,304 which are the present value of the future estimated payments using a discount rate of 15%. These entries have been recorded directly through equity.

iv) <u>Royalty financial liabilities</u>

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. Under Canadian GAAP the Company accounted for this royalty interest offering as a revenue transaction. The proceeds received were recorded as deferred revenue and were recognized into income on a ½ basis consistent with the related royalty expense.

Under IFRS the proceeds received from this royalty interest offering do not meet the definition of revenue under IAS 18. The transaction should be accounted for as a financial liability. On the date of transition the Company reclassified $280,422 of deferred revenue under Canadian GAAP to a royalty financial liability under IFRS. The royalty financial liability was measured based on a discount rate of approximately 15% which is derived by taking into account future estimated repayments to satisfy the financial liability. The increase in the liability at January 1, 2010 of $98,869, at September 30, 2010 of $102,005 and at December 31, 2010 of $103,237 was recorded directly through equity.

d) Reconciliation of the Company's net income and comprehensive income and deficit reported in accordance with Canadian GAAP to its net income and comprehensive income and deficit in accordance with IFRS

Reconciliation of the Company's net income and comprehensive income and deficit for for the nine months ended September 30, 2010

		Previous Canadian GAAP $	Effect of transition to IFRS $	IFRS $
Revenue (note 18)		3,881,414		3,881,414
Cost of goods sold	(i)	2,207,071	825	2,207,896
Gross margin		1,674,343	(825)	1,673,518
Research and product development	(i)	512,978	266	513,244
General and administration	(i)	965,295	(4,547)	960,748
Sales and marketing		49,875		49,875
Other operating loss (note 13)		4,124		4,124
Write off of property and equipment		10,490		10,490
Income from operations		131,581	3,456	135,037
Finance costs (note 14)	(ii)	(143,426)	(16,153)	(159,579)
SGGF legal fees (note 16b)		314,983		314,983
Income before tax		303,138	(12,697)	290,441
Income taxes				
Current		87,000	-	87,000
Reduction as a result of applying non-capital losses carried forward against the current period's taxable income		(87,000)	-	(87,000)
Net income and comprehensive income for the period		303,138	(12,697)	290,441
Deficit, beginning of period		(7,390,890)		(7,397,736)
Deficit, end of period		(7,087,752)		(7,107,295)
Net income per common share:				
Basic		0.01		0.01
Diluted		0.01		0.01
Weighted average number of common shares outstanding		52,623,671		52,623,671

Reconciliation of the Company's net income and comprehensive income and dificit for the three months ended September 30, 2010

		Previous Canadian GAAP $	Effect of transition to IFRS $	IFRS $
Revenue (note 18)		1,708,071		1,708,071
Cost of goods sold	(i)	957,025	4,976	962,001
Gross margin		751,046	(4,976)	746,070
Research and product development	(i)	230,880	4,966	235,846
General and administration	(i)	334,801	853	335,654
Sales and marketing		10,759		10,759
Other operating loss (note 13)		14,477		14,477
Write off of property and equipment		-		-
Income from operations		160,129	(10,795)	149,334
Finance costs (note 14)	(ii)	(45,567)	(5,475)	(51,042)
SGGF legal fees (note 16b)		-		-
Income before tax		114,562	(16,270)	98,292
Income taxes				
Current		28,000	-	28,000
Reduction as a result of applying non-capital losses carried forward against the current period's taxable income		(28,000)	-	(28,000)
Net income and comprehensive income for the period		114,562	(16,270)	98,292
Deficit, beginning of period		(7,202,314)		(7,205,586)
Deficit, end of period		(7,087,752)		(7,107,294)
Net income per common share:				
Basic		0.00		0.00
Diluted		0.00		0.00
Weighted average number of common shares outstanding		54,421,094		54,421,094

Reconciliation of the Company's net income and comprehensive income and deficit for the December 31, 2010

		Previous Canadian GAAP	Effect of transition to IFRS	IFRS
		$	$	$
Revenue (note 18)		5,576,636		5,576,636
Cost of goods sold	(i)	3,041,469	18,735	3,060,204
Gross margin		2,535,167	(18,735)	2,516,432
Research and product development	(i)	764,351	9,708	774,059
General and administration	(i)	1,274,467	4,545	1,279,012
Sales and marketing		69,513		69,513
Other operating loss		29,964		29,964
Write off of property and equipment		12,278		12,278
Income from operations		384,594	(32,988)	351,606
Finance costs (note 14)	(ii)	(198,499)	(15,964)	(214,463)
SGGF legal fees (note 16b)		314,983		314,983
Income before tax		501,078	(48,952)	452,126
Income taxes				
Current		272,536	-	272,536
Reduction as a result of applying non-capital losses carried forward against the current period's taxable income		(272,536)	-	(272,536)
Net income and comprehensive income for the year		501,078	(48,952)	452,126
Deficit, beginning of year		(7,390,890)		(7,397,736)
Deficit, end of year		(6,889,812)		(6,945,610)
Net income per common share:				
Basic		0.01		0.01
Diluted		0.01		0.01
Weighted average number of common shares outstanding		53,219,621		53,219,621

The following explanatory notes relating to the Company's reconciliations of net income (loss) and comprehensive income (loss) from Canadian GAAP to IFRS should be read in conjunction with the Company's explanatory notes relating to its reconciliations of equity.

i) Share-based payments

As a result of differences in accounting treatment between Canadian GAAP and IFRS the Company decreased share-based payment expenses by the amount of $3,456 for the first nine months of 2010, increased share-based payment expenses by the amount of $10,795 for the third quarter of 2010 and increased the expenses by the amount of $32,988 at December 31, 2010.

ii) Finance costs

Liability on license agreement

The Company has increased interest expenses on the liability relating to the licensing agreement with the University of Guelph for an exclusive variety of a mint plant in the amount of $13,018 at September 30, 2010, in the amount of $4,339 in the third quarter of 2010 and $11,597 at December 31, 2010.

Royalty financial liability

The Company has increased interest expenses from the unwinding of the discount on the royalty financial liability in the amount of $3,135 at September 30, 2010, in the amount of $1,136 in the third quarter of 2010 and $4,367 at December 31, 2010.

b) Statements of Cash Flows

There were no significant changes to the presentation of cash flows as reported under Canadian GAAP to IFRS with the exception of the Company reporting interest paid directly in the statement of cash flows under IFRS whereas under Canadian GAAP it was disclosed as supplementary information to the statement of cash flows.

4. INVENTORIES

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

	September 30, 2011	December 31, 2010	January 1, 2010
	$	$	$
Raw materials	174,079	224,262	218,604
Work in progress	195,835	15,996	135,026
Finished goods	225,633	39,167	163,191
	595,547	279,425	516,821

Inventories expensed to cost of goods sold during the nine months ended September 30, 2011 is $1,869,593 (nine months ended September 30, 2010 - $2,163,475).

5. PROPERTY AND EQUIPMENT

Cost at	Equipment not available for use $	Manufacturing Equipment $	Office Equipment $	Computer Equipment $	Leasehold Improvements $	Total $
January 1, 2010	176,431	2,635,342	75,861	240,070	120,014	3,247,718
additions		80,029	419	10,294	350	91,092
write-offs	-	(16,949)	-	-	-	(16,949)
December 31, 2010	176,431	2,698,422	76,280	250,364	120,364	3,321,861
January 1, 2011	176,431	2,698,422	76,280	250,364	120,364	3,321,861
additions	27,870	57,459		2,498		87,827
write-offs	-		-	-	-	-
September 30, 2011	204,301	2,755,881	76,280	252,862	120,364	3,409,688
Accumulated Depreciation at						
January 1, 2010		1,063,270	54,135	152,878	79,557	1,349,840
depreciation		223,878	4,387	27,189	32,186	287,640
write-offs		(4,671)	-	-	-	(4,671)
December 31, 2010		1,282,477	58,522	180,067	111,743	1,632,809
January 1, 2011		1,282,477	58,522	180,067	111,743	1,632,809
depreciation		194,385	2,664	16,019	4,550	217,618
write-offs		-	-	-	-	-
September 30, 2011		1,476,862	61,186	196,086	116,293	1,850,427
Carrying value at						
September 30, 2011	204,301	1,279,019	15,094	56,776	4,071	1,559,261
December 31, 2010	176,431	1,415,946	17,758	70,297	8,621	1,689,052
January 1, 2010	176,431	1,572,072	21,726	87,192	40,457	1,897,878

Depreciation expense allocation for the following periods:

	Cost of goods sold $	Inventory $	G&A $	Total $
Nine Months ending Sept 30, 2011	139,666	54,187	23,765	217,618
Nine Months ending Sept 30, 2010	216,630	14,584	23,450	254,664
Year ending December 31, 2010	249,764	3,649	34,227	287,640

6. LICENSE

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, which is the finite life of the agreement, $3,000 per year.

	September 30, 2011 $	December 31, 2010 $	January 1, 2010 $
Cost of License	30,000	30,000	30,000
Accumulated amortization	8,250	6,000	3,000
Net book value	21,750	24,000	27,000

The amortization expense is presented under general and administration expense for the following periods:

Nine Months Ended September 30, 2011	2,250
Nine Months Ended September 30, 2010	2,250
Year Ended December 31, 2010	3,000

7. LONG-TERM DEBT

	September 30, 2011 $	December 31, 2010 $	January 1, 2010 $
Loan payable at $17,384 per month, principal and interest at 5.49%, secured by a general security agreement, due January, 2013.	1,118,344	1,227,426	1,366,232
Less current portion	152,415	146,426	138,806
	965,929	1,081,000	1,227,426

Interest expense is presented under finance costs for the following periods:

Nine Months Ended September 30, 2011	47,377
Nine Months Ended September 30, 2010	53,054
Year Ended December 31, 2010	69,808

In the event of default of any terms and conditions of the loan and enforcement of these terms and conditions by the lender, the current 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 would 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.

8. 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 an interest rate of 15%, which is the estimated cost of borrowing at which the Company could borrow similar debt without a conversion feature.

	September 30, 2011	December 31, 2010	January 1, 2010
	$	$	$
Total value of convertible debentures	535,900	512,500	485,000
Equity component	60,000	60,000	60,000
Deferred tax on equity component	(15,000)	(15,000)	(15,000)
	45,000	45,000	45,000
Liability component	490,900	467,500	440,000

Interest and accretion expenses are presented under finance costs for the following periods:

	Interest expense	Accretion
Nine Months Ended September 30, 2011	30,000	23,400
Nine Months Ended September 30, 2010	31,096	20,241
Year Ended December 31, 2010	41,096	27,500

9. DEFERRED REVENUE

Deferred revenue consists of $449,284 for prepaid sales orders and $17,000 for a research grant advanced in excess of expenditures made.

10. EMPLOYEE FUTURE BENEFITS OBLIGATION

The Company has an unfunded, non-registered, non-indexed defined retirement benefit plan for an officer. The retirement benefit is two months' salary for each year he is employed by the Company.

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 September 30, 2011 was 4.19% (December 31, 2010 - 4.19%).

Accrued benefit obligation	**Nine Months Ended September 30, 2011 $**	Year Ended December 31, 2010 $
Unfunded balance, beginning of year	**160,187**	136,786
Current service cost	**14,909**	17,297
Interest costs on accrued benefit obligation	**5,243**	6,104
	180,339	160,187

Elements of defined benefit costs recognized in the year	**Nine Months Ended September 30, 2011 $**	Year Ended December 31, 2010 $
Current service cost	**14,909**	17,297
Interest cost on accrued benefit obligation	**5,243**	6,104
	20,152	23,401

Defined benefit costs have been presented under research and product development expenses in the consolidated statements of net income for the period.

11. 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

	Nine Months Ended September 30, 2011		Year Ended December 31, 2010	
	Number of Shares	**Amount $**	Number of Shares	Amount $
Balance at beginning of the period	**54,988,039**	**5,770,858**	51,710,063	5,479,202
Changes during the period				
Shares issued for debt	**1,590,909**	**175,000**	3,277,976	291,656
Balance at end of the period	**56,578,948**	**5,945,858**	54,988,039	5,770,858

During the first quarter of 2011 the Company's directors exchanged debt obligations totaling $175,000 into 1,590,909 common shares of the Company. This non cash transaction has been excluded from the consolidated statement of cash flows.

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 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:

Fair Value at grant date $	Exercise Price $	Year of Expiration	Weighted Average Contractual Life Remaining (years)	**September 30, 2011 Number of Options**	December 31, 2010 Number of Options	January 1, 2010 Number of Options
0.1141	0.15	2016	4.7	**400,000**	-	-
0.0620	0.10	2015	3.9	**600,000**	**650,000**	-
0.1042	0.13	2014	2.7	**900,000**	**900,000**	900,000
0.0836	0.12	2013	1.9	**630,000**	**630,000**	660,000
0.1494	0.25	2013	1.3	**210,000**	**210,000**	210,000
0.1864	0.28	2012	1.0	**390,000**	**390,000**	390,000
0.2182	0.30	2012	0.3	**100,000**	**100,000**	100,000
0.2029	0.27	2011	0.1	**150,000**	**150,000**	150,000
			2.6	**3,380,000**	**3,030,000**	2,410,000

In the second quarter of 2011 the Company granted 400,000 stock options. The application of the fair value based method of accounting for share based payments 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 was 2.10%, the weighted average expected volatility was 127% which was based on prior trading activity of the Company's shares, the weighted average expected life of the options was 5 years, the weighted average share price was $0.15, the weighted average exercise price was $0.15, and the expected dividends were nil. The weighted average grant date fair value of options granted in September of 2011 was $0.1141 per option.

12. CAAP LOAN

Under the terms of the CAAP Loan, the Company is permitted to claim reimbursement from the Canadian Agricultural Adaptation Program for certain corporate activities as defined in the agreement. These claims can be submitted quarterly in arrears after eligible expenditures have been made. The final claims will have to be submitted by December 31, 2012 and the maximum amount allowed under the program is $1,339,625. The final amount of the loan that is claimed is required to be repaid in eight equal interest-free installments beginning December 31, 2013 and ending December 31, 2020. As of September 30, 2011 $123,081 has been claimed under the program.

13. RELATED PARTY TRANSACTIONS

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

	Nine Months Ended September 30	
	2011	2010
	$	$
Royalties earned by employees and directors	15,791	15,761
Amounts payable to employees and directors included in royalties payable	4,209	26,854
Convertible debentures owned by officers and directors	70,000	70,000
Interest earned in Convertible Debentures by officers and directors	4,200	4,200
Key management salaries, short-term benefits, consulting fees and director fees	431,250	390,000
Key management personnel share based payments	39,003	31,780
Consulting fees payable to a company controlled by a director in accounts payable and accrued liabilities	-	12,500
Director fees converted by directors into common shares	175,000	-

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

14. OTHER OPERATING LOSSES (INCOME)

	Quarters Ended September 30		Nine Months Ended September 30	
	2011	2010	2011	2010
	$	$	$	$
Foreign exchange losses	7,409	14,475	32,536	4,063
Other expenses (income)	469	2	(561)	61
	7,878	14,477	31,975	4,124

15. FINANCE COSTS

	Quarters Ended September 30		Nine Months Ended September 30	
	2011	2010	2011	2010
	$	$	$	$
Interest on royalty financial liability	10,683	15,239	38,635	42,069
Interest on long-term loan	15,305	17,223	47,377	53,054
Interest on convertible debentures	10,000	10,000	30,000	31,096
Accretion of convertible debentures	8,100	5,241	23,400	20,241
Interest on liability on license agreement	-	4,339	3,068	13,017
Bank charges	-	(1,000)	12	102
	44,088	51,042	142,492	159,579

16. SEGMENTED INFORMATION

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

	Quarters Ended September 30		Nine Months Ended September 30	
	2011	2010	2011	2010
	$	$	$	$
United States	1,212,144	1,423,225	3,012,588	2,960,348
Other	248,507	284,846	1,164,904	919,375
Canada	54,445	-	56,687	1,691
	1,515,096	1,708,071	4,234,179	3,881,414

17. CONTINGENCIES AND COMMITMENTS

a) The Company and its wholly owned subsidiary, Ceapro Veterinary Products Inc. were served with a statement of claim from AVAC Ltd. alleging damages of $724,500. The Company has filed a statement of defense to refute the claim and believes it has strong defenses to the AVAC allegations. However at this time the outcome of the litigation is uncertain and no provisions have been made in the financial statements on account of this litigation.

b) During the year ended December 31, 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 legal firm 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. Based upon the review by management at June 30, 2010 with its legal counsel and the circumstances applicable at this time, management believes 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 in 2010.

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.

18. OPERATING LEASE

The Company is committed to future annual payments under operating leases for manufacturing facilities and office space. All operating leases expire by September 30, 2012. Total lease commitments from October 1, 2011 until September 30, 2012 are $222,324.

19. REVENUE

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.

20. FINANCIAL INSTRUMENTS

The fair value of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities and royalties interest payable 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 the fair value differs substantially from carrying value.

The repayable research funding and the Canadian Agricultural Adaptation Program (“CAAP”) loan are recorded at the amount drawn under the agreement which represents the estimated fair value of the obligation plus the deferred interest benefit.

The royalty financial liability and the liability on license agreement were estimated using a discount rate that results from the estimated future repayment of those obligations. As there has been no significant change in estimated future repayments, and as the estimated discount rate also approximates the company’s estimated cost of capital for similar borrowing arrangements, management believes the carrying amount of these obligations do not differ significantly from their fair value.

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 85% of accounts receivable are due from two customers at September 30, 2011 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 September 30, 2011, a total of $779,835.

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. 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 $	4 - 7 years $	Total $
Accounts payable and accrued liabilities	384,125			384,125
Long-term debt, including interest	208,613	1,059,104		1,267,717
Royalties payable	22,948			22,948
Royalty financial liability	114,250	257,062	6,608	377,920
Liability on license agreement	12,960	82,080	146,880	241,920
Convertible debentures including interest	510,000			510,000
Employee future benefit obligation	-	-	224,453	224,453
Repayable research funding	55,000	45,000		100,000
Repayable CAAP funding	-	123,081		123,081
Total	1,307,896	1,566,327	377,941	3,252,164

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:

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 $56,450 annually based upon 2011 estimated U.S. dollar sales of $5,645,000. 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	+1% Earnings & Equity
Financial assets			
Accounts receivable	237,603	2,376	(2,376)
Financial Liabilities			
Accounts payable and accrued liabilities	124,098	(1,241)	1,241
Total increase (decrease)		1,135	(1,135)

The carrying amount of accounts receivable and accounts payable and accrued liabilities in USD represents the Company's exposure at September 30, 2011

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.

21. CAPITAL DISCLOSURES

The Company considers its capital to be its shareholder deficiency. The Company's objective 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 31, 2010.

22. SUBSEQUENT EVENTS

Subsequent to the end of the quarter the Company received $750,000 under a capital expenditure grant agreement.