

**Q3
2009**

QUARTERLY REPORT

**UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THIRD QUARTER ENDED
SEPTEMBER 30, 2009**



Management's Discussion & Analysis

The MD&A provides commentary on the results of operations for the periods ended September 30, 2009 and 2008, the financial position as at September 30, 2009 and December 31, 2008, and the outlook of Ceapro Inc. ("Ceapro") based on information available as at November 24, 2009. The following information should be read in conjunction with the unaudited interim consolidated financial statements as at September 30, 2009, and related notes thereto, which are prepared in accordance with Canadian generally accepted accounting principles (Canadian GAAP) for interim statements, as well as the audited consolidated financial statements and Management Discussion and Analysis (MD&A) for the year ended December 31, 2008. All comparative percentages are between the periods ended September 30, 2009 and 2008 and all dollar amounts are expressed in Canadian currency, unless otherwise noted. Additional information about Ceapro can be found on SEDAR at www.sedar.com.

FORWARD-LOOKING STATEMENTS

This MD&A offers an assessment of Ceapro's future plans and operations as at November 24, 2009, and contains forward-looking statements. By their nature, forward-looking statements are subject to numerous risks and uncertainties, including those discussed below. You are cautioned that the assumptions used in the preparation of forward-looking information, although considered reasonable at the time of preparation, may prove to be imprecise and, as such, undue reliance should not be placed on forward-looking statements. Actual results, performance or achievements could differ materially from those expressed in, or implied by, these forward-looking statements. No assurance can be given that any of the events anticipated will transpire or occur, or if any of them do so, what benefits Ceapro will derive from them. The Company disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise.

Vision, Core Business, and Strategy

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

Our products include:

- A commercial line of natural active ingredients, including *beta glucan*, *avenanthramides (colloidal oat extract)*, *oat powder*, *oat oil*, *oat peptides* and *lupin peptides* which are marketed to the personal care, cosmetic, and nutraceutical industries through our distribution partners and direct sales; and
- Veterinary therapeutic products, including an *oat shampoo*, an *ear cleanser*, and a *dermal complex/conditioner*, which are manufactured and marketed to veterinarians in Japan and Asia, through agreements with Daisen Sangyo Co. Ltd.

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

- *CeaProve*[®], a diabetes test meal to screen pre-diabetes and to determine dosage levels for diabetes oral therapy, and to monitor the condition of pre-diabetics.
- A *drug delivery* platform using our *beta glucan* technology to deliver compounds for uses ranging from wound care and therapy, to skin care treatments that reduce the signs of aging; and
- An extension to *the active ingredients* product range offering, through new plant extract products.

Our vision is to be a global leader in developing and commercializing products for the human and animal health markets through the use of proprietary technology and renewable resources. We act as innovator, advanced processor and formulator in the development of new products. We deliver our technology to the market through distribution partnerships and direct sales efforts. Our strategic focus is in:

- Increasing sales and expanding markets for active ingredients;
- Developing and marketing additional high-value proprietary therapeutic products;
- Deploying *CeaProve*[®] and maximizing product utilization; and
- Advancing new technology to a partnering or spin out position;

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

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

- Adding value to all aspects of our business;
- Enhancing the health of humans and animals;
- Discovering, extracting, and commercializing new, natural 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 the requisite resources (intellectual and human capital) and the competitive advantages (partnerships) to exploit our technology. 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, and other income offerings.

Risks and Uncertainties

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

The financial statements for the quarter ended September 30, 2009 have been prepared on a going concern basis which assumes that the Company will continue in operation for the foreseeable future and accordingly will be able to realize its assets and discharge liabilities in the normal course of operations. Since inception, the Company has accumulated net losses, negative operating cash flow and has not yet achieved consistent profitability. The Company has relied on the proceeds of public and private offerings of equity securities and debentures, debt, and other income offerings to support the Company's operations. The Company potentially faces material financial exposure if it is unable to make timely payments it has agreed to in a lawsuit settlement agreement. The Company's ability to continue as a going concern is dependant on obtaining additional financial capital, achieving profitability, and generating positive cash flow. There can be no assurance that the Company will be able to access capital when needed, achieve profitability, or generate cash flow.

The financial statements as at September 30, 2009 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.

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

a) Credit risk:

The Company makes sales to customers that are well-established and well-financed within their respective industries. There is always a risk relating to the financial stability of customers and their ability to pay, but management views this risk as minimal. Approximately 93% of accounts receivable are due from three customers at September 30, 2009.

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 is required to make one more payment of \$176,250 in 2009 pursuant to a lawsuit settlement agreement. In the event it defaults on the required payment, the Company faces the potential of a material adverse court cost award. 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.

c) Market risk:

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

i) Foreign currency risk

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

The Company is exposed to foreign currency fluctuations because a substantial portion of sales are denominated in U.S. dollars. A one percent change in the Canadian/U.S. dollar exchange rate will impact revenues by approximately \$45,000 annually based upon estimated 2009 U.S. dollar sales of \$4,500,000. Estimated sales were assumed by annualizing sales during the first six months of 2009. The Company does purchase some materials and services in U.S. dollars and to a lesser extent Euros. This amount will vary by product sold.

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

	Carrying Amount (USD)	Foreign Exchange Risk (USD)	
		-1%	+1%
		Earnings & Equity	Earnings & Equity
Financial assets			
Accounts receivable	\$630,723	\$ 6,307	\$ (6,307)
Financial liabilities			
Accounts payable and accrued liabilities	\$286,321	\$ (2,863)	\$ 2,863
Total increase (decrease)		\$ 3,444	\$ (3,444)

The carrying amount of accounts receivable and accounts payable and accrued liabilities in USD represents the Company's exposure at September 30, 2009.

ii) Interest rate risk

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

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

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

Ceapro's financial statements are prepared within a framework of Canadian GAAP selected by management and approved by the Board of Directors. The assets, liabilities, revenues, and expenses reported in the consolidated financial statements depend to varying degrees on estimates made by management. An estimate is considered a critical accounting estimate if it requires management to make assumptions about matters that are highly uncertain; and if different estimates that could have been used would have a material impact. The significant areas requiring the use of management estimates relate to provisions made for inventory valuation, amortization of property and equipment, the assumptions used in determining stock-based compensation, and the discount rate used in determining the employee future benefits obligation. 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.

Recently Adopted Accounting Pronouncements

Recently Adopted

In February 2008, The CICA issued new Handbook Section 3064 "Goodwill and Intangible Assets", replacing Handbook Section 3062 "Goodwill and Other Intangible Assets" and Handbook Section 3450 "Research and Development Costs". The new section is applicable to financial statements relating to fiscal years beginning on or after October 1, 2008. Accordingly, the Company adopted the new standards for its fiscal year beginning January 1, 2009. This section establishes standards for the recognition, measurement, presentation, and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. Standards concerning goodwill are unchanged from the standards included in the previous Handbook Section 3062. The Company has determined that the adoption of this new section did not have a material impact on these consolidated financial statements.

Future Accounting Pronouncements

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

During the current year the Company has begun to prepare its detailed IFRS conversion plan. This plan is aimed at identifying the differences between IFRS and the Company's current accounting policies,

assessing the impact on the Company's financial reporting and, when necessary, analyzing alternative policies that could be adopted.

During the second quarter of 2009 the Company engaged a consultant to provide assistance with the IFRS conversion plan. Several key accounting issues that would most likely affect the Company were identified by the consultant and will provide guidance for further work and considerations that need to be evaluated.

During the third quarter key personnel have attended IFRS training and education courses and this will continue in the fourth quarter. The Company intends to review several options for first time adopters of IFRS with its auditors in the fourth quarter to prepare for implementation in 2010.

During 2010 the Company plans to prepare financial statements under IFRS for all interim and annual reporting periods after the preparation of its financial statements prepared in accordance with Canadian GAAP. The 2010 financial statements prepared under IFRS will not be released to the public in 2010, but will provide comparative figures required for 2011 reporting.

Results of Operations

Nine Months and Quarters Ended September 30, 2009 and 2008

SELECTED INFORMATION

\$000s except per share data	Nine Months Ended Sept 30		Quarter Ended Sept 30	
	2009	2008	2009	2008
Total revenues	3,976	3,179	1,262	871
Income (loss) from operations	581	(1,024)	131	(406)
Net income (loss)	565	(2,184)	(4)	(488)
Basic (loss) per share	0.01	(0.05)	0.00	(0.01)
Diluted (loss) per share	0.01	(0.05)	0.00	(0.01)

The first nine months of fiscal 2009 saw an increase in revenues of \$797,000 or 25%. Sales of all products were higher in 2009 than 2008 with the exception of oat oil sales. Sales of oat oil in 2009 commenced in the third quarter whereas in 2008 oat oil was sold in both the first and second quarters.

There was net income in the nine months ended September 30, 2009 of \$565,000 which includes the reversal of \$426,000 of a legal fee accrual previously recorded in 2008. Income from operations was \$581,000 compared with a loss from operations of \$1,024,000 in 2008 largely due to higher gross margins, and lower operating expenses. Research costs decreased \$51,000 due primarily to sharply lower expenditures for *CeaProve*® and the recovery of certain costs previously expensed. There were no expenditures for a bio-energy feasibility study that was completed in 2008.

The third quarter of 2009 resulted in an increase in sales of \$391,000 or 45% compared to 2008. Income from operations in the third quarter was \$131,000 compared to a loss of \$406,000 in 2008 as a result of higher sales, stronger margins, and lower expenses. Net loss for the quarter was \$4,000. There was a third quarter foreign exchange loss of \$38,000, offset by other income of \$13,000 versus a foreign exchange gain of \$21,000 in 2008 that negatively impacted financial results.

Revenue

\$000s	Nine Months Ended Sept 30			Quarter Ended Sept 30		
	2009	2008	Change	2009	2008	Change
Total sales	3,976	3,179	25%	1,262	871	45%

PRODUCT SALES

Total sales have grown in 2009 to record levels for the nine months year to date.

The increased sales reflect growing sales of Ceapro active ingredients.

Sales in the third quarter increased as oat oil produced in 2009 was available for sale in the third quarter whereas in 2008 most oat oil sales occurred in the second quarter.

Expenses

COST OF GOODS SOLD AND GROSS MARGINS

\$000s	Nine Months Ended Sept 30			Quarter Ended Sept 30		
	2009	2008	Change	2009	2008	Change
Sales	3,976	3,179		1,262	871	
Cost of goods sold	1,767	1,980		748	607	
Gross margin	2,209	1,199	84%	514	264	95%
Gross margin %	56%	38%		41%	30%	

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

Margins are significantly higher in both the first nine months and third quarter of 2009 due to process improvements successfully implemented during the year to date, the acquisition of higher quality raw material versus that obtained in previous years, lower labour turnover, and a stronger value of the US dollar versus the Canadian dollar versus 2008.

The third quarter had a higher proportion of sales of low margin products that had the effect of lower the gross margins in the third quarter versus the first two quarters. The Company also reduced its capacity output in the quarter to allow the implementation of some of the principles of good manufacturing practices.

GENERAL AND ADMINISTRATION

\$000s	Nine Months Ended Sept 30			Quarter Ended Sept 30		
	2009	2008	Change	2009	2008	Change
Salaries and benefits	299	366		86	115	
Consulting	140	120		45	34	
Insurance	85	88		33	26	
Investor relations	107	147		23	59	
Legal	60	104		10	48	
Directors Compensation	146	115		44	39	
Other	273	340		61	105	
Total general and administration expenses	1,110	1,280	-13%	302	426	-29%

General and administration expense (G&A) for the first nine months of 2009 decreased \$170,000 or 13%. Salaries decreased as a result of staff reductions during the year. Directors compensation increased due to stock based compensation incurred as a result of stock options issued in the second quarter. Consulting fees of \$15,000 were incurred during the year for the IFRS conversion project. Most other costs decreased which reflects efforts by the Company to reduce expenditures and focus on core areas of the business.

The same factors noted for the first nine months of 2009 were also applicable in the third quarter and resulted in lower expenses of \$124,000 for the quarter.

SALES AND MARKETING

\$000s	Nine Months Ended Sept 30			Quarter Ended Sept 30		
	2009	2008	Change	2009	2008	Change
Salaries and benefits	68	248		15	45	
Travel	13	36		2	-	
Other	31	46		10	11	
Total sales and marketing	112	330	-66%	27	56	-52%

Sales and marketing expenses decreased significantly largely due to staff reductions for marketing activities. There was also a decrease in travel costs and conference expenses associated with market expansion and production of corporate promotional material in the first half of the year.

The third quarter of 2009 showed a reduction in expenditures of 52% versus 2008 as this quarter had the full impact of all staff reduction measures and associated travel costs.

The Company expects to begin initiating significant marketing initiatives in the fourth quarter of 2009.

ROYALTIES

\$000s	Nine Months Ended Sept 30			Quarter Ended Sept 30		
	2009	2008	Change	2009	2008	Change
Total royalties expenses	280	336	-17%	35	92	-62%
Recognition of deferred royalty revenue	(45)	(36)		(14)	(10)	
Net royalty expense	235	300	-22%	21	82	-74%

As of September 30, 2009, royalty investors receive royalties equal to 2.285% (2008- 10.59%) of revenues from product sales and royalty, license, and product development fees of active ingredients and veterinary therapeutic products, to a maximum of twice the amount invested. During the first nine months 8.305% of previous royalties were fully accrued which will reduce the royalty rate to 2.285%. AVAC receives royalties of up to 2.5% to 5% of revenues from eligible product sales, to a maximum of one and a half to twice the amount invested. Royalty expense throughout 2009 will vary directly with fluctuations in royalty rates, product sales, royalty, license and product development fees, product sales mix, and any new royalty interest offerings or AVAC investments that may be completed.

INTEREST & AMORTIZATION

\$000s	Nine Months Ended Sept 30			Quarter Ended Sept 30		
	2009	2008	Change	2009	2008	Change
Total interest expense	58	63	-8%	20	21	-5%
Amortization	112	249	-55%	12	85	-86%

Interest costs declined as a result of a lower principal balance of long-term debt from the previous year. Amortization was lower due to the allocation of plant equipment amortization into inventory and cost of sales during the first nine months and quarter ended September 30, 2009.

Other Income (Expenses)

RESEARCH AND PRODUCT DEVELOPMENT

\$000s	Nine Months Ended Sept 30			Quarter Ended Sept 30		
	2009	2008	Change	2009	2008	Change
Salaries and benefits	291	204		98	76	
Regulatory and patents	83	65		16	10	
Other	(35)	34		(45)	11	
	339	303	12%	69	97	-29%
Product development - CeaProve®	52	139	-63%	41	6	583%
Total research and product development expenses	391	442	-12%	110	103	7%

Research and product development expenses for the nine month period decreased slightly from 2008 expenses. There was a significant decrease in costs for CeaProve® due to the strategic decision to outlicense the technology. As a result, total research and product development expenditures decreased by 12%.

For the third quarter research and development expenses decreased 29% while total research and development, including CeaProve®, increased 7%. Higher costs for salaries and benefits and for regulatory and patents were offset by the recovery of certain research and development costs previously expensed. Expenditures for CeaProve® increased sharply in the third quarter of 2009 due to increased costs to scale up manufacturing capabilities required for clinical trial activities.

BIO-ENERGY FEASIBILITY STUDY

There were no expenditures on the bio-energy feasibility study in 2009 as the project was completed in the second quarter of 2008. During the first six months of 2008, costs net of government funding in the amount of \$18,000 were recognized by the Company. The Company has decided to not pursue this project any further.

OTHER INCOME (EXPENSES)

Other income is comprised primarily of \$64,000 of foreign exchange losses during the nine months ended September 30, 2009 compared to foreign exchange gains of \$40,000 in 2008. The foreign exchange losses in the third quarter were \$38,000 compared to a foreign exchange gain of \$18,000 in 2008. The US dollar depreciated steadily against the Canadian dollar during the third quarter of 2009.

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.

<i>\$000s except per share data</i>	2009			2008				2007
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Total revenues	1,261	1,212	1,502	1,049	871	1,456	852	776
Net (loss) income	(4)	466	103	(1,415)	(488)	(1,087)	(609)	(528)
Basic (loss) income per share	(0.00)	0.01	0.00	(0.04)	(0.01)	(0.02)	(0.01)	(0.01)
Diluted (loss) income per share	(0.00)	0.01	0.00	(0.04)	(0.01)	(0.02)	(0.01)	(0.01)

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

Liquidity and Capital Resources

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

Agricultural Financial Services Corporation has provided a term loan of up to \$1,612,406 for plant and equipment financing. The loan was fully drawn down at December 31, 2007 and regular monthly payments began in February 2008.

Total common shares issued and outstanding as at November 24, 2009 were 51,710,063 (November 10, 2008 – 47,050,063). In addition, 2,485,000 stock options (November 10, 2008 – 1,910,000) and no warrants (November 10, 2008 – 4,806,608) were outstanding that are potentially convertible into an equal number of common shares at various prices. Shareholders' deficiency of (\$820,000) at September 30, 2009 improved from a shareholders' deficiency of (\$1,931,000) at December 31, 2008.

Ceapro's working capital deficiency was (\$1,214,301) at September 30, 2009, an improvement from a deficiency of (\$2,390,699) at December 31, 2008.

The Company will be required to pay \$176,250 during the remainder of 2009 pursuant to a lawsuit settlement agreement. And an additional \$53,750 will be required to be paid to the Company's former President and Chief Executive Officer.

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.

Related Party Transactions

During the first nine months of 2009, \$36,988 of royalties were earned by employees and directors from their investment in previous Ceapro royalty offerings. At September 30, 2009, \$82,960 of royalties were payable to employees and directors. Consulting fees of \$112,500 were earned by a company controlled by a

director during the nine months ended September 30, 2009. These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

Contingencies

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

During the year ended December 31, 2008, all claims related to the Saskatchewan Claim were dismissed. During the quarter end March 31, 2009 the Company and defendants reached an agreement with respect to the settlement of the appeal proceedings and the legal costs payable to the defendants. The Company agreed to consent to the dismissal of all appeal proceedings and to pay to the defendants \$705,000 in legal costs which are payable in four equal quarterly installments of \$176,250 commencing March 31, 2009. Payments are secured by a general security agreement against all of the Company's present and after acquired property subordinated to the general security agreement already in place on the Company's long-term debt. The first three payments have been made in the first, second, and third quarters and the final payment of \$176,250 is included on the balance sheet under SGGF legal fees.

In the event the Company should default on the provisions of the Settlement Agreement, the defendants would be entitled to enforce security with respect to the balance of payments owing and would be entitled to open up all cost matters with respect to the litigation and make arguments to the Saskatchewan Court of Queen's Bench that additional costs should be awarded.

Legal fees and other direct costs associated with the lawsuit have been funded for all periods prior to December 31, 2007 by the Company from funds received from lawsuit contributors who, in exchange, would receive an interest in the proceeds (if any) from the Saskatchewan Claim; and through agreements with the Company's legal counsel to accept a portion of their fees on a contingency basis. There has been no funding from lawsuit contributors to pay any legal fees invoiced in 2008 and management is of the opinion that these legal fees will only be required to be paid upon receipt of funding from lawsuit contributors or proceeds from the litigation. During the quarter ended June 30, 2009, the Company was advised by one of its legal counsels that they did not intend to pursue collection of their previously billed legal fees. The amount of these fees is \$426,300 and this amount was recorded as a recovery in the second quarter. The remaining amount of these disputed fees is \$314,983 and this amount has been accrued in the financial statements and included in SGGF legal fees on the balance sheet.

In addition, the Company was required to post a bond with the court in the amount of \$305,000 which was secured by guarantees of certain members of the current and past Board of Directors of the Company. The Company has agreed to indemnify the Board of Directors and certain past members of the Board of Directors in relation to the bond.

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

Outlook

Despite challenging global economic conditions in the past year and the severe economic recession currently impacting the global economy, Ceapro's outlook is positive. The first nine months of 2009 represent a very strong operational performance and Ceapro is cautiously optimistic of robust sales growth and improving financial performance based on the sound foundation of work completed to date, and on innovations current and future.

The new production facility and technology improvements are now working efficiently and Ceapro is confident it is now poised to realize the benefits of more efficient production, greater capacity, and flexibility to expand sales and markets.

Ceapro has made strides in the development of *CeaProve*[®], its pre-diabetes screening product. Pursuant to the strategic review, the Company has out-licensed the technology for the medical market and clinical trial activities have commenced and are expected to generate the current data needed to successfully launch the product in all markets. Expenditures to support large scale manufacturing commenced during the quarter.

Going forward, Ceapro will continue to look to further develop new products and new markets for its Active Ingredient business and is reviewing in-licensing opportunities that have been presented to the Company in recognition of the strength of Ceapro's core extraction technology and in recognition of Ceapro's proven track-record of product commercialization. The sale of additional new extracts is expected to drive increases in revenues and enhance profitability in the future.

Ceapro intends to implement its operating plans in a measured and responsible manner. Additional working capital is required to support the expected increases in the volume of sales of existing products, the introduction of new products to existing and new markets, and the further development of new technology. The Company cautions that the availability of these additional investments may affect the pace of growth.

Additional Information

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

Financial Statements

**Unaudited Consolidated Financial Statements for the
Third Quarter Ended September 30, 2009**

Cepro Inc.

Financial Statements

CEAPRO INC.

Consolidated Balance Sheets

	September 30 2009 (Unaudited)	December 31 2008 (Audited)
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 14,331	\$ 16,525
Accounts receivable	697,494	551,594
Inventories	449,184	406,967
Prepaid expenses and deposits	105,672	82,568
	1,266,681	1,057,654
LICENSE	27,750	30,000
PROPERTY AND EQUIPMENT (NET OF ACCUMULATED AMORTIZATION)	1,975,720	2,199,740
	\$ 3,270,151	\$ 3,287,394
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 980,841	\$ 1,150,814
Current portion of deferred revenue	57,125	57,125
Current portion of long-term debt	148,050	131,582
Current portion of royalties payable	749,983	455,549
Current portion of employee future benefits obligation	53,750	187,000
SGGF legal fees (Note 9)	491,233	1,466,283
	2,480,982	3,448,353
DEFERRED ROYALTY REVENUE	227,523	272,944
EMPLOYEE FUTURE BENEFITS OBLIGATION	130,315	117,012
LONG-TERM DEBT	1,251,740	1,366,232
ROYALTIES PAYABLE	-	13,981
	4,090,560	5,218,522
SHAREHOLDERS' DEFICIENCY		
SHARE CAPITAL	5,479,202	5,016,395
CONTRIBUTED SURPLUS	456,794	374,018
DEFICIT	(6,756,405)	(7,321,541)
	(820,409)	(1,931,128)
	\$ 3,270,151	\$ 3,287,394

Contingencies (Note 9)

See accompanying notes

Financial Statements

CEAPRO INC.

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

Unaudited

	Nine Months Ended Sept 30		Quarters Ended Sept 30	
	2009	2008	2009	2008
Revenue				
Sales	\$ 3,975,560	\$ 3,178,917	\$ 1,261,634	\$ 871,331
Cost of goods sold	1,767,222	1,980,476	748,404	606,592
Gross margin	2,208,338	1,198,441	513,230	264,739
Expenses				
General and administration	1,109,675	1,280,150	302,159	426,059
Royalties	235,034	300,357	20,576	82,323
Sales and marketing	112,125	330,336	27,062	56,063
Amortization	112,208	248,522	12,404	85,409
Interest on long-term debt	58,436	63,309	19,642	20,764
	1,627,478	2,222,674	381,843	670,618
Income (loss) from operations	580,860	(1,024,233)	131,387	(405,879)
Other income (expenses)				
Research and product development	(391,473)	(442,324)	(110,278)	(103,004)
Bio-energy feasibility study	-	(14,427)	-	(55)
Other income (expenses)	(50,551)	52,866	(24,681)	21,305
	(442,024)	(403,885)	(134,959)	(81,754)
Comprehensive income (loss) before SGGF legal fees recovery (expense) and income taxes	138,836	(1,428,118)	(3,572)	(487,633)
SGGF legal fees recovery (expense)	426,300	(755,469)	-	-
Income taxes				
Current	275,000	-	34,000	-
Reduction as a result of applying non-capital losses carried forward against the current period's taxable income	(275,000)	-	(34,000)	-
NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD	565,136	(2,183,587)	(3,572)	(487,633)
Deficit, beginning of period	(7,321,541)	(3,722,072)	(6,752,833)	(5,418,026)
Deficit, end of period	\$ (6,756,405)	\$ (5,905,659)	\$ (6,756,405)	\$ (5,905,659)
Net income (loss) per share:				
Basic	\$ 0.01	\$ (0.05)	\$ -	\$ (0.01)
Diluted	\$ 0.01	\$ (0.05)	\$ -	\$ (0.01)

See accompanying notes

Financial Statements

CEAPRO INC.

Consolidated Statements of Cash Flows

Unaudited

	Nine Months Ended Sept 30		Quarters Ended Sept 30	
	2009	2008	2009	2008
Operating Activities				
Net income (loss) for the period	\$ 565,136	\$ (2,183,587)	\$ (3,572)	\$ (487,633)
Items not affecting cash				
Amortization	269,947	248,522	91,266	85,409
Employee future benefits obligation	13,308	38,578	5,494	7,582
Recognition of deferred royalty revenue	(45,421)	(36,321)	(14,414)	(9,955)
Stock based compensation	82,776	92,698	22,151	38,563
	885,746	(1,840,110)	100,925	(366,034)
Changes in Non-Cash Working Capital Items				
Accounts receivable	(145,900)	309,827	(105,269)	367,310
Inventories	(42,217)	(249,723)	27,944	53,207
Prepaid expenses and deposits	(23,104)	43,830	(33,878)	(8,786)
Accounts payable and accrued liabilities	(169,973)	133,755	121,718	147,160
Current portion of employee future benefits obligation	(133,250)		(19,698)	-
Deferred revenue	-	(57,007)	-	-
SGGF legal fees	(975,050)	755,469	(176,250)	-
	(603,748)	(903,959)	(84,508)	192,857
Investing Activities				
Purchase of license	-	(30,000)	-	-
Purchase of property and equipment	(43,682)	(266,562)	(26,274)	(54,660)
	(43,682)	(296,562)	(26,274)	(54,660)
Financing Activities				
Repayment of long-term debt	(98,024)	(82,781)	(32,511)	(31,389)
Proceeds from issuance of share capital	466,000	-	-	-
Share issue costs	(3,193)	-	-	-
Increase in royalties payable	280,453	150,335	34,989	2,180
	645,236	67,554	2,478	(29,209)
Increase (decrease) in cash and cash equivalents	(2,194)	(1,132,967)	(108,304)	108,988
Cash and cash equivalents at beginning of period	16,525	1,282,326	122,635	40,371
Cash and cash equivalents at end of period	\$ 14,331	\$ 149,359	\$ 14,331	\$ 149,359
Cash and cash equivalents consist of:				
Cash on deposit (overdraft) with banks	\$ 14,331	\$ 149,359	\$ 14,331	\$ 149,359
Supplementary information				
Interest paid	\$ 58,436	\$ 63,309	\$ 19,642	\$ 20,764
Royalties paid	\$ -	\$ 82,260	\$ -	\$ -

See accompanying notes

Notes to Consolidated Financial Statements

1. Accounting Principles for Interim Financial Statements and Going Concern

The accompanying unaudited interim consolidated financial statements have been prepared by the Company in accordance with Canadian generally accepted accounting principles ("Canadian GAAP") for interim financial statements. The accounting principles and methods of computation adopted in these financial statements are the same as those of the audited financial statements for the year ended December 31, 2008.

Omitted from these statements are certain information and note disclosures normally included in the annual financial statements prepared in accordance with Canadian GAAP. The financial statements and notes presented should be read in conjunction with the audited financial statements for the year ended December 31, 2008.

The consolidated financial statements have been prepared on a going concern basis which assumes that the Company will continue in operation for the foreseeable future and accordingly will be able to realize its assets and discharge liabilities in the normal course of operations. Since inception, the Company has accumulated net losses, negative operating cash flow and has not yet achieved consistent profitability. The Company has relied on the proceeds of public and private offerings of equity securities and debentures, debt, and other income offerings to support the Company's operations. The Company potentially faces material financial exposure if it is unable to make timely payments it has agreed to in a lawsuit settlement agreement (see note 9). The Company's ability to continue as a going concern is dependant on obtaining additional financial capital, achieving profitability, and generating positive cash flow. There can be no assurance that the Company will be able to access capital when needed, achieve profitability, or generate positive cash flow.

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

2. Recently Adopted and Future Accounting Pronouncements

Recently Adopted

In February 2008, The CICA issued new Handbook Section 3064 "Goodwill and Intangible Assets", replacing Handbook Section 3062 "Goodwill and Other Intangible Assets" and Handbook Section 3450 "Research and Development Costs". The new section is applicable to financial statements relating to fiscal years beginning on or after October 1, 2008. Accordingly, the Company adopted the new standards for its fiscal year beginning January 1, 2009. This section establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. Standards concerning goodwill are unchanged from the standards included in the previous Handbook Section 3062. The Company has determined that the adoption of this new section did not have a material impact on these consolidated financial statements.

Future Accounting Pronouncements

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

Notes to Consolidated Financial Statements

2. Recently Adopted and Future Accounting Pronouncements (Continued)

During the year the Company will begin preparing its detailed IFRS conversion plan. This plan will be aimed at identifying the differences between IFRS and the Company's current accounting policies, assessing the impact on the Company's financial reporting and, when necessary, analyzing alternative policies that could be adopted.

3. Inventories

	September 30 2009	December 31 2008
Raw materials	\$ 243,041	\$ 200,548
Work in progress	130,955	98,752
Finished goods	75,188	107,667
	<u>\$ 449,184</u>	<u>\$ 406,967</u>

4. Share Capital

(a) Authorized

Unlimited number of Class A voting common shares

Unlimited number of Class B non-voting common shares

(b) Issued

Class A common shares

	Number of Shares	Amount
Balance December 31, 2008	47,050,063	\$ 5,016,395
Equity Placements	4,660,000	\$ 466,000
Share Issue Costs	-	(3,193)
Balance September 30, 2009	<u>51,710,063</u>	<u>\$ 5,479,202</u>

(c) Stock options outstanding are as follows:

Year of Expiration	Exercise Price	Number of Options Outstanding	
		30-Sep 2009	December 31 2008
2014	\$0.13	900,000	-
2013	\$0.12	660,000	780,000
2013	\$0.25	210,000	240,000
2012	\$0.28	390,000	390,000
2012	\$0.30	100,000	100,000
2011	\$0.30	75,000	150,000
2011	\$0.27	150,000	150,000
		<u>2,485,000</u>	<u>1,810,000</u>

(d) Warrants

	30-Sep 2009	December 31 2008
Issued and outstanding, beginning of period	4,806,608	4,806,608
Expired	(4,806,608)	-
Issued and outstanding, end of period	<u>-</u>	<u>4,806,608</u>

All outstanding warrants expired on February 27, 2009.

Notes to Consolidated Financial Statements

5. Employee Future Benefits Obligation

	Nine Months ended Sept 30, 2009	Three Months ended Sept 30, 2009	December 31 2008
Unfunded balance, beginning of period	\$ 304,012	\$ 198,274	\$ 283,648
Curtailment loss	-	-	68,751
Benefits paid	(133,250)	(19,698)	(67,361)
Current service cost	9,600	3,839	14,496
Interest costs on accrued obligation	3,703	1,650	4,478
	184,065	184,065	304,012
Less current portion	(53,750)	(53,750)	(187,000)
Unfunded balance, end of period	\$ 130,315	\$ 130,315	\$ 117,012

6. Related Party Transactions

	Nine Months Ended September 30	
	2009	2008
Royalties earned by employees and Directors	\$ 36,988	\$ 53,474
Royalties payable to employees and Directors	\$ 82,960	\$ 39,142
Consulting fees paid to a company controlled by a director	\$ 112,500	\$ 6,300

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

7. Other Income (Expenses)

Other income (expenses) is comprised as follows:

	Nine Months Ended September 30	
	2009	2008
Foreign exchange gains (losses)	\$ (64,206)	\$ 39,940
Interest and other Income	13,655	12,926
Total other income (expenses)	\$ (50,551)	\$ 52,866

8. Segmented Information

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

	Nine Months Ended September 30	
	2009	2008
North America	\$ 2,421,339	\$ 2,194,004
Other	1,554,222	984,913
	\$ 3,975,561	\$ 3,178,917

Notes to Consolidated Financial Statements

9. Contingencies

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

During the year ended December 31, 2008, all claims related to the Saskatchewan Claim were dismissed. During the quarter end March 31, 2009 the Company and defendants reached an agreement with respect to the settlement of the appeal proceedings and the legal costs payable to the defendants. The Company agreed to consent to the dismissal of all appeal proceedings and to pay to the defendants \$705,000 in legal costs which are payable in four equal quarterly installments of \$176,250 commencing March 31, 2009. Payments are secured by a general security agreement against all of the Company's present and after acquired property subordinated to the general security agreement already in place on the Company's long-term debt. The first three payments have been made in the first, second and third quarters and the final payment of \$176,250 is included on the balance sheet under SGGF legal fees.

In the event the Company should default on the provisions of the Settlement Agreement, the Defendants would be entitled to enforce security with respect to the balance of payments owing and would be entitled to open up all cost matters with respect to the litigation and make arguments to the Saskatchewan Court of Queen's Bench that additional costs should be awarded.

Legal fees and other direct costs associated with the lawsuit have been funded for all periods prior to December 31, 2007 by the Company from funds received from lawsuit contributors who, in exchange, would receive an interest in the proceeds (if any) from the Saskatchewan Claim; and through agreements with the Company's legal counsel to accept a portion of their fees on a contingency basis. There has been no funding from lawsuit contributors to pay any legal fees invoiced in 2008 and management is of the opinion that these legal fees will only be required to be paid upon receipt of funding from lawsuit contributors or proceeds from the litigation. During the quarter ended June 30, 2009, the Company was advised by one of its legal counsels that they did not intend to pursue collection of their previously billed legal fees. The amount of these fees is \$426,300 and this amount was recorded as a recovery in the second quarter. The remaining amount of these disputed fees is \$314,983 and this amount has been accrued in the financial statements and included in SGGF legal fees on the balance sheet.

In addition, the Company was required to post a bond with the court in the amount of \$305,000 which was secured by guarantees of certain members of the current and past Board of Directors of the Company. The Company has agreed to indemnify the Board of Directors and certain past members of the Board of Directors in relation to the bond.

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

Notes to Consolidated Financial Statements

10. Financial Instruments

The company has designated its financial instruments as follows: cash and cash equivalents are classified as held-for-trading, which is measured at fair value; accounts receivable are classified as loans and receivables which are measured at amortized cost; accounts payable and accrued liabilities, long-term debt, royalties payable and the SGGF legal fees are classified as other liabilities and are also measured at amortized cost. The fair value of accounts payable, the current portion of long term debt, royalties payable and the SGGF legal fees approximates 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 Company has exposure to credit, liquidity and market risk as follows:

a) Credit risk:

The Company makes sales to customers that are well-established and well-financed within their respective industries. There is always a risk relating to the financial stability of customers and their ability to pay, but management views this risk as minimal. Approximately 93% of accounts receivable are due from three customers.

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 is required to make one more payment of \$176,250 in 2009 pursuant to a lawsuit settlement agreement. In the event it defaults on the required payment, the Company faces the potential of a material adverse court cost award. 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.

c) Market risk

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

i) Foreign currency risk

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

The Company is exposed to foreign currency fluctuations because a substantial portion of sales are denominated in U.S. dollars. A one percent change in the Canadian/U.S. dollar exchange rate will impact revenues by approximately \$45,000 annually based upon estimated 2009 U.S. dollar sales of \$4,500,000. Estimated sales were assumed by annualizing sales during the first nine months of 2009. The Company does purchase some materials and services in U.S. dollars and to a lesser extent Euros. This amount will vary by product sold.

Notes to Consolidated Financial Statements

10. Financial Instruments (continued)

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

	Carrying Amount (USD)	Foreign Exchange Risk (USD)	
		-1%	1%
		Earnings & Equity	Earnings & Equity
Financial assets			
Accounts receivable	\$ 630,723	\$ 6,307	\$ (6,307)
Financial liabilities			
Accounts payable and accrued liabilities	\$ 286,321	\$ (2,863)	\$ 2,863
Total increase(decrease)		\$ 3,444	\$ (3,444)

The carrying amount of accounts receivable and accounts payable and accrued liabilities in USD represents the Company's exposure at September 30, 2009.

ii) Interest rate risk

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

11. Capital Disclosures

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

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

The Company is not subject to externally imposed capital requirements and the Company's overall strategy with respect to capital risk management remains unchanged from the year ended December 2008.