

Q3

2008 QUARTERLY REPORT

**FINANCIAL STATEMENTS FOR THE
THIRD QUARTER ENDED
SEPTEMBER 30, 2008**



Management's Discussion & Analysis

The MD&A provides commentary on the results of operations for the periods ended September 30, 2008 and 2007, the financial position as at and for the period ending September 30, 2008 and December 31, 2007, and the outlook of Ceapro Inc. ("Ceapro") based on information available as at November 20, 2008. The following information should be read in conjunction with the unaudited interim consolidated financial statements as at September 30, 2008, 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, 2007. All comparative percentages are between the periods ended September 30, 2008 and 2007 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 20, 2008, 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 and organic products for medical, cosmetic, and animal health industries using proprietary technology and natural, renewable resources.

Our products include:

- A commercial line of natural and organic 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., and in Canada by Aventix Animal Health.

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;
- Outlicensing *CeaProve*[®] to maximize shareholder value; 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. Our marketing strategy emphasizes providing technical support to our distributors and their customers to maximize the value of our technology and product utilization. Our vision and business strategy are supported by our commitment to the following core values:

- 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 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 exposures related to litigation issues that are presently uncertain. The Company's ability to continue as a going concern is dependant on obtaining additional financial capital, achieving profitability, and generating positive cash flow. The 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.

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 86% of accounts receivable is due from four customers.

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.

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 \$43,000 annually. The Company does purchase some materials and services in U.S. dollars. This amount will vary by product sold.

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

Change in Accounting Policies

Going Concern

Effective January 1, 2008, the Company adopted the modified CICA Handbook Section 1400 "General Standards of Financial Statement Presentation". The section requires that management make an assessment of the Company's ability to continue as a going concern over a period which is at least, but is not limited to, twelve months from the balance sheet date. The new requirement only addresses disclosures and has no impact on the Company's financial results.

Capital Disclosures

Effective January 1, 2008, the Company adopted the CICA Handbook Section 1535 "Capital Disclosures". The new section establishes standards for disclosing information about an entity's capital and how it is managed. The new accounting standard only addresses disclosures and has no impact on the Company's financial results. This additional disclosure has been provided in note 10 in the third quarter 2008 financial statements.

Inventories

Effective January 1, 2008, the Company adopted the CICA Handbook Section 3031 "Inventories" which replaces Section 3030. The new section provides guidance on the determination of cost and its subsequent recognition as an expense, including any write-down to net realizable value. It also provides guidance on the cost formulas that are used to assign costs to inventories.

The changes to this section affect the following, in particular:

Certain costs, such as storage costs and general and administrative expenses that do not contribute to bringing the inventories to their present location and condition, are excluded from the cost of inventories and expensed during the year in which they are incurred; and

The reversal of the write-down to net realizable value amounts when there is a subsequent increase in the value of the inventories, is now required.

This change has no significant impact on the financial statements as at September 30, 2008.

Financial Instruments - Disclosures and Presentation

Effective January 1, 2008, the Company adopted the CICA Handbook Sections 3862 and 3863, "Financial Instruments - Disclosures and Financial Instruments - Presentation." These new sections place increased emphasis on disclosure about the nature and extent of risk arising from financial instruments and how the entity manages those risks. This change has no significant impact on the Company's financial position.

Future Accounting Pronouncements

In February 2008 the CICA issued Handbook Section 3064, "Goodwill and Intangible Assets" which replaces Section 3062 "Goodwill and Other Intangible Assets". This standard provides guidance on the recognition of intangible assets in accordance with the definition of an asset and the criteria for asset recognition, clarifying the application of the concept of matching revenues and expenses, whether these assets are separately acquired or are developed internally. The standard applies to interim and annual financial statements for fiscal periods beginning on or after October 1, 2008. The Company is presently evaluating the impact of this standard but does not expect the adoption of this standard to have a material impact on its financial position.

In 2007 the CICA published an update to the Accounting Standards Board of Canada's ("AcSB") "Implementation Plan for Incorporating International Financial Reporting Standards ("IFRS") into Canadian GAAP". The plan outlines the key decisions that the CICA will need to make as it implements the Strategic Plan to converge Canadian GAAP standards with IFRS. While IFRS uses a similar conceptual framework to that of Canadian GAAP, there are still significant accounting policy differences that will need to be resolved. The CICA has confirmed January 1, 2011 as the change over from current Canadian GAAP to IFRS for publicly accountable companies. In sequence with these changes, the Company is currently developing its internal implementation plans to meet the guidelines of the future reporting requirements.

Results of Operations

Nine Months and Quarters Ended September 30, 2008 and 2007

SELECTED INFORMATION

<i>\$000s except per share data</i>	Nine Months Ended Sept. 30		Quarter Ended Sept 30	
	2008	2007	2008	2007
Total revenues	3,179	2,671	871	591
Income (loss) from operations	(1,024)	(246)	(406)	(354)
Net (loss)	(2,184)	(861)	(488)	(602)
Basic (loss) per share	(0.05)	(0.02)	(0.01)	(0.01)
Diluted (loss) per share	(0.05)	(0.02)	(0.01)	(0.01)

The first nine months of 2008 brought an increase in sales of \$508,000 or 19%. The 2008 nine month sales are the highest nine month totals ever recorded by the Company. Loss from operations was \$1,024,000 an increase of \$778,000 when compared to a loss of \$246,000 in 2007. There was a net loss of \$2,184,000 over the first nine months of 2008 caused by \$442,000 in research and development costs, \$14,000 in net costs for a bio-energy feasibility study, and \$755,000 of legal fees related to litigation, offset by \$53,000 of foreign currency gains and interest income.

The third quarter of 2008 resulted in an increase in sales of \$280,000 or 47% over 2007. The sales in this quarter are the highest third quarter sales ever recorded by the company. The quarter had a loss from operations of \$406,000, an increase of \$52,000 when compared to a loss of \$354,000 in 2007. There was a net loss of \$488,000 in the third quarter 2008 compared to a net loss of \$602,000 for the same period in 2007 caused by \$103,000 in research and development costs offset by \$21,000 of foreign currency gains and interest income.

Revenue

<i>\$000s</i>	Nine Months Ended Sept.30			Quarters Ended Sept.30		
	2008	2007	Change	2008	2007	Change
Total revenue	3179	2671	19%	871	591	47%

PRODUCT SALES

Total sales have grown in 2008 to record levels for both the nine months year to date and the third quarter.

The increased sales occurred despite a lower US dollar exchange rate for the first nine months in 2008 and an interruption in the supply of key raw material due to flooding in the mid western United States during July and August.

Expenses

COST OF GOODS SOLD AND GROSS MARGINS

\$000s	Nine Months Ended Sept. 30			Quarter Ended Sept. 30		
	2008	2007	Change	2008	2007	Change
Sales	3,179	2,671		871	591	
Cost of goods sold	1,980	1,300		607	389	
Gross margin	1,199	1,371	-13%	264	202	31%
Gross margin %	38%	51%		30%	34%	

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

For the first nine months and third quarter of 2008, the gross margin percentage was lower as a result of the reduction of the value of the US dollar versus the Canadian dollar, higher labour costs to attract and retain employees, training costs for new employees, overtime costs applicable to labour, increased rent, and increased shipping costs to meet customer deadlines. The Company continues to make progress in addressing commissioning difficulties with new equipment installed in 2007. The Company has incurred additional equipment rental charges because it has not been able to source certain key pieces of equipment. A key challenge continues to be the ability to attract and retain skilled labour as a result of the economic boom in Alberta. Third quarter sales and gross margin were negatively impacted by a supply interruption of a key raw material due to flooding in the mid western United States in July and August. This resulted in orders which could not be filled in the third quarter. These orders are expected to be filled in the fourth quarter from raw material purchased from Northern European Countries.

GENERAL AND ADMINISTRATION

\$000s	Nine Months Ended Sept. 30			Quarter Ended Sept. 30		
	2008	2007	Change	2008	2007	Change
Salaries and benefits	366	247		115	88	
Consulting	120	36		34	21	
Insurance	88	90		26	28	
Investor relations	147	168		59	51	
Legal	104	52		48	12	
Directors Compensation	115	111		39	72	
Other	340	229		105	77	
Total general and administration expenses	1,280	933	37%	426	349	22%

General and administration expense (G&A) for the first nine months of 2008 increased \$347,000 or 37%. Salaries and benefits increased due to the hiring of human resources personnel and stock based compensation expense. Consulting fees have increased due to a corporate strategic review undertaken in the second quarter, and increased business development activities. Legal fees have increased primarily as a result of costs involved with respect to litigation issues for independent consultation and appeal proceedings. Travel and accommodation expenses also increased due to the acting President traveling to the corporate office. Conference expenses included in other increased sharply from 2007 as the company promotes itself in new markets. Additional expenses were incurred in recruiting new positions. In the third quarter, the G&A expenses increased by 22% or \$77,000 corresponding to the increase for the first nine months of 2008.

SALES AND MARKETING

\$000s	Nine Months Ended Sept.30			Quarter Ended Sept. 30		
	2008	2007	Change	2008	2007	Change
Salaries and benefits	248	203		45	90	
Travel	36	22		-	4	
Other	46	76		11	14	
Total sales and Marketing	330	301	10%	56	108	-48%

In the first nine months of 2008, sales and marketing expenses increased by 10% largely due to increased travel to attend cosmeceutical shows with our distributors of our new organic products and higher salary cost. Other costs were lower in 2008 due to expenditures in 2007 for the Ceapro Dermatology brand not repeated in 2008.

As a result of fewer marketing activities in Q3, there was a 48% decrease in Q3 costs.

ROYALTIES

\$000s	Nine Months Ended Sept. 30			Quarter Ended Sept. 30		
	2008	2007	Change	2008	2007	Change
Total royalties expenses	336	283	19%	92	63	46%
Recognition of deferred royalty revenue	(36)	(31)		(10)	(7)	
Net royalty expense	300	252	19%	82	56	46%

As at September 30, 2008, royalty investors receive royalties equal to 10.6% (2007 – 10.6%) of revenues from product sales and royalty, license, and product development fees of active ingredients and veterinary therapeutic products, 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 two times the amount invested. Royalty expense throughout 2008 will vary directly with fluctuations in product sales, royalty, license, and product development fees, product sales mix, and any new royalty interest offerings or AVAC investments that may be completed. The deferred royalty revenues from the offering that closed December 28, 2005 are matched to the associated royalties at 50% of the royalty expense in each quarter.

INTEREST & AMORTIZATION

\$000s	Nine Months Ended Sept. 30			Quarter Ended Sept. 30		
	2008	2007	Change	2008	2007	Change
Interest on callable debt and other	-	3		-	-	
Interest on long-term debt	63	28		21	9	
Total interest expense	63	31	103%	21	9	133%
Amortization	249	98	154%	85	34	150%

Amortization has increased substantially due to the acquisition of new equipment for the plant expansion. Interest costs are higher due to higher levels of long term debt for expansion.

Other Income (Expenses)

RESEARCH AND PRODUCT DEVELOPMENT

\$000s	Nine Months Ended Sept. 30			Quarter Ended Sept. 30		
	2008	2007	Change	2008	2007	Change
Salaries and benefits	204	98		76	33	
Regulatory and patents	65	69		10	25	
Other	34	20		11	5	
	303	187	62%	97	63	54%
Product development - CeaProve®	139	274	-49%	6	127	-95%
Total research and product development expenses	442	461	-4%	103	190	-46%

For the first nine months of 2008, research and product development expenses increased 62% excluding product development for Ceaprove®. This was due to the hiring of additional scientific personnel for research and development of new products and additional new technology development. Given the decision to out-license Ceaprove®, there was a 49% decrease in Ceaprove® expenditures in the first nine months of 2008. The net decrease was 4% for total research and development expenses for the first nine months of 2008.

Research and product development expenses increased 54% excluding product development for Ceaprove® in the third quarter of 2008 versus 2007. Ceaprove® expenditures decreased 95% in the quarter as a result of the decision to out-license this technology. There was a net decrease of 46% for total research and development expenses for the third quarter of 2008.

BIO-ENERGY FEASIBILITY STUDY

During the second quarter of 2008, the bio-energy feasibility study was completed. As a result of the study, the Company has decided that it would not enter into the bio-energy market but that its technology presented out-licensing opportunities to other participants in the bio-energy sector. At September 30, 2008, costs of \$90,000 had been incurred offset by the recognition of government funding and industry contributions in the amount of \$76,000 for a net expense of \$14,000.

OTHER INCOME (EXPENSE)

\$000s	Nine Months Ended Sept. 30			Quarter Ended Sept. 30		
	2008	2007	Change	2008	2007	Change
Foreign exchange gains (losses)	40	(110)		18	(56)	
Interest income	13	23		3	20	
Total other income (expenses)	53	(87)	161%	21	(36)	158%

Other income (expenses) was comprised of foreign exchange gains and losses resulting from the fluctuations of the US dollar against the Canadian dollar and interest income on surplus cash balances.

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.

	2008			2007				2006
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
<i>\$000s except per share data</i>								
Total revenues	871	1,456	852	776	591	1,119	962	704
Net (loss) income	(488)	(1,087)	(609)	(528)	(602)	(237)	(22)	(122)
Basic (loss) income per share	(0.01)	(0.02)	(0.01)	(0.01)	(0.01)	(0.01)	(0.00)	(0.00)
Diluted (loss) income per share	(0.01)	(0.02)	(0.01)	(0.01)	(0.01)	(0.01)	(0.00)	(0.00)

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.

Ceapro commenced production in September 2007 in an expanded manufacturing operation at Leduc, Alberta. The investment in capital equipment has not yet fully provided the expected returns through reduced costs and higher margins, expanded volumes, and a greater diversity of products. The expanded area offers space to operate continuous processes, expand production shifts, enhance production parameters, and allow streamlined production of pharmaceutical-grade active ingredients. Ceapro is focused on getting the manufacturing capacity to expected levels and is implementing necessary actions to address all plant commissioning issues. Several improvements were implemented during the third quarter and further improvements have been identified for implementation in the fourth quarter and 2009. Agricultural Financial Services Corporation has provided a \$1,612,406 term loan for the purchase of plant equipment and the payout of previous long term debt. The drawdown on this loan facility was completed in December 2007. Principal and interest payments on this loan commenced February 1, 2008.

Total common shares issued and outstanding as at November 10, 2008 were 47,050,063 (November 7, 2007 – 46,950,063). In addition as at November 10, 2008, 1,910,000 stock options (November 7, 2007 – 2,512,092) and 4,806,608 warrants (November 7, 2007 – 4,898,008) were outstanding that are potentially convertible into an equal number of common shares at various prices. Shareholders' deficiency increased to (\$537,000) at September 30, 2008 from shareholders' equity of \$1,554,000 at December 31, 2007.

Ceapro's working capital deficiency was (\$1,067,249) at September 30, 2008, a decrease of \$2,492,181 from December 31, 2007. Ceapro continues to pursue additional financings to fund ongoing working capital requirements, and to secure the financial resources required to support the expected increases in sales of existing products, the introduction of new products to existing and new markets, and the development of new technology.

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 2008, \$53,474 of royalties were earned by employees and Directors from their investment in previous Ceapro royalty offerings. At September 30, 2008, \$39,142 of royalties were payable to employees and Directors. Consulting fees of \$63,000 were paid to a company controlled by a Director for the nine months ending September 30, 2008. 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.

Legal Proceedings

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 claims 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.

As of September 30, 2008, all claims related to the Saskatchewan Claim have been dismissed. Appeal proceedings with respect to the Final Trial Judgement were commenced during the quarter ended September 30, 2008.

Legal fees and other direct costs associated with the lawsuit for all periods have been funded prior to December 31, 2007 by the Company from funds received from lawsuit contributors who, in exchange, will 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.

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 indemnified the Board of Directors and certain past members of the Board of Directors in relation to the bond.

Until all decisions have been rendered, including any appellate rulings, the ultimate financial impact on the company remains uncertain, including any estimate of court costs. A significant court cost award against the Company could have a material impact on the Company's financial position. No provision has been made in the financial statements and the full financial impact, if any, will be recorded when the outcome of the litigation is known.

The SGGF legal fees represents legal fees presented to the Company for litigation services billed in 2008 by the Corporation's former litigation counsel. The former litigation counsel has indicated the invoices are due and payable from the Corporation. Management is of the opinion that it is not liable for the payment of these invoices unless it either sells further lawsuit interests to the group of lawsuit contributors or there are proceeds from the litigation.

Subsequent Events

Subsequent to September 30, 2008, the Company entered into an agreement with its former President and Chief Executive Officer to settle all employment and employee future benefit obligations. The terms of the agreement require a payment of \$37,500 in November 2008, \$53,750 on or before June 30, 2009, and \$53,750 on or before December 31, 2009. In addition the Company is required to make monthly payments commencing in November 2008 until August 2009 totaling \$109,500. As a result of this agreement, a total amount of \$200,750 has been classified as current liabilities.

Outlook

The initiatives undertaken during the past few years will support an increase in product sales. Ceapro is pleased with nine month sales in a difficult economic environment and looks forward to growing sales for the balance of 2008 to record levels. While Ceapro incurred a loss in the first nine months, management is focused on rectifying difficulties with the startup on the expanded production facilities. The expansion of sales to existing customers, and the introduction of new products to new customers should boost sales of active ingredients. The Company looks forward to the optimization of its plant expansion to meet the growing demand for its products. Our sales initiatives are yielding results we expected and now our focus is on restoring margins to our previous higher levels.

Ceapro has made strides in the development of *CeaProve*[®], its pre-diabetes screening product. Pursuant to the strategic review, the Company is looking into out-licensing and is currently engaged in discussions with other parties. There is no assurance that a transaction will be completed.

During 2008, Ceapro will continue to further develop new products 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 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, 2008**

Cepro Inc.

Financial Statements

CEAPRO INC.

Consolidated Balance Sheets

	September 30 2008 (Unaudited)	December 31 2007 (Audited)
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 149,359	\$ 1,282,326
Accounts receivable	398,338	708,165
Inventories	406,307	156,584
Prepaid expenses and deposits	86,270	130,100
	1,040,274	2,277,175
RESTRICTED CASH	50,000	50,000
LICENSES	30,000	-
PROPERTY AND EQUIPMENT (NET OF ACCUMULATED AMORTIZATION)	2,278,458	2,260,418
	\$ 3,398,732	\$ 4,587,593
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 628,168	\$ 494,413
Current portion of deferred revenue	62,838	107,007
Current portion of long-term debt	129,835	112,638
Current portion of royalties payable	330,463	138,185
Employee future benefits obligation	200,750	-
SGGF legal fees (Note 12)	755,469	-
	2,107,523	852,243
DEFERRED ROYALTY REVENUE	279,218	328,377
EMPLOYEE FUTURE BENEFITS OBLIGATION	121,476	283,648
LONG-TERM DEBT	1,399,790	1,499,768
ROYALTIES PAYABLE	27,962	69,905
	3,935,969	3,033,941
SHAREHOLDERS' DEFICIENCY		
SHARE CAPITAL	5,016,395	5,016,395
CONTRIBUTED SURPLUS	352,027	259,329
DEFICIT	(5,905,659)	(3,722,072)
	(537,237)	1,553,652
	\$ 3,398,732	\$ 4,587,593

Contingency (Note 9)

See accompanying notes

Financial Statements

CEAPRO INC.

Consolidated Statements of Net Loss, Comprehensive Loss and Deficit

Unaudited

	Nine Months Ended September 30		Quarters Ended September 30	
	2008	2007	2008	2007
Revenue				
Sales	\$ 3,178,917	\$ 2,670,920	\$ 871,331	\$ 590,709
Cost of goods sold	1,980,476	1,300,326	606,592	388,862
Gross margin	1,198,441	1,370,594	264,739	201,847
Expenses				
General and administration	1,280,150	933,418	426,059	348,584
Royalties	300,357	252,347	82,323	55,810
Sales and marketing	330,336	301,010	56,063	108,256
Amortization	248,522	98,331	85,409	33,527
Interest on long-term debt	63,309	28,460	20,764	8,536
Interest - other	-	3,000	-	871
	2,222,674	1,616,566	670,618	555,584
(Loss) income from operations	(1,024,233)	(245,972)	(405,879)	(353,737)
Other income (expenses)				
Research and product development	(442,324)	(461,097)	(103,004)	(189,967)
Bio-energy feasibility study	(14,427)	(66,765)	(55)	(21,095)
Other income (expenses)	52,866	(87,021)	21,305	(37,151)
	(403,885)	(614,883)	(81,754)	(248,213)
Loss before SGGF legal fees and income taxes	(1,428,118)	(860,855)	(487,633)	(601,950)
SGGF legal fees (Note 12)	(755,469)	-	-	-
Income taxes				
Current	-	-	-	(68,500)
Reduction as a result of applying non-capital losses carried forward against the current period's taxable income	-	-	-	68,500
NET LOSS AND COMPREHENSIVE LOSS FOR THE PERIOD	(2,183,587)	(860,855)	(487,633)	(601,950)
Deficit, beginning of period	(3,722,072)	(2,332,738)	(5,418,026)	(2,591,643)
Deficit, end of period	\$ (5,905,659)	\$ (3,193,593)	\$ (5,905,659)	\$ (3,193,593)
Net loss per share:				
Basic	\$ (0.05)	\$ (0.02)	\$ (0.01)	\$ (0.01)
Diluted	\$ (0.05)	\$ (0.02)	\$ (0.01)	\$ (0.01)

See accompanying notes

Financial Statements

CEAPRO INC.

Consolidated Statements of Cash Flows

Unaudited

	Nine Months Ended September 30		Quarters Ended September 30	
	2008	2007	2008	2007
Operating Activities				
Net loss for the period	\$ (2,183,587)	\$ (860,855)	\$ (487,633)	\$ (601,950)
Items not affecting cash				
Amortization	248,522	98,331	85,409	33,527
Employee future benefits obligation	38,578	48,810	7,582	17,044
Recognition of deferred royalty revenue	(36,321)	(30,513)	(9,955)	(6,747)
Stock based compensation	92,698	60,994	38,563	38,752
	(1,840,110)	(683,233)	(366,034)	(519,374)
Changes in Non-Cash Working Capital Items				
Accounts receivable	309,827	386,384	367,310	710,092
Inventories	(249,723)	1,519	53,207	55,460
Prepaid expenses and deposits	43,830	(114,983)	(8,786)	(27,607)
Accounts payable and accrued liabilities	133,755	68,817	147,160	(483,598)
Deferred revenue	(57,007)	120,878	-	140,044
SGGF legal fees	755,469	-	-	-
	(903,959)	(220,618)	192,857	(124,983)
Investing Activities				
Purchase of licenses	(30,000)	-	-	-
Purchase of property and equipment	(266,562)	(1,292,760)	(54,660)	(616,718)
Deposits for the purchase of property and equipment	-	(51,336)	-	(28,254)
	(296,562)	(1,344,096)	(54,660)	(644,972)
Financing Activities				
Repayment of long-term debt	(82,781)	(27,153)	(31,389)	(9,251)
Repayment of callable debt	-	(36,313)	-	(12,338)
Proceeds from long term debt	-	556,838	-	-
Proceeds from issuance of share capital	-	2,692,100	-	-
Share capital issue costs	-	(288,799)	-	(11,107)
Proceeds from exercise of stock options	-	138,878	-	105,641
Increase (decrease) in royalties payable	150,335	(53,915)	2,180	(69,884)
	67,554	2,981,636	(29,209)	3,061
Increase (decrease) in cash and cash equivalents	(1,132,967)	1,416,922	108,988	(766,894)
Cash and cash equivalents at beginning of period	1,282,326	310,926	40,371	2,494,742
Cash and cash equivalents at end of period	\$ 149,359	\$ 1,727,848	\$ 149,359	\$ 1,727,848
Supplementary information				
Interest paid	\$ 63,309	\$ 31,460	\$ 20,764	\$ 9,407
Royalties paid	\$ 82,260	\$ 308,817	-	\$ 132,444
Cash and cash equivalents consist of:				
Cash on deposit (overdraft) with banks	\$ 149,359	\$ (70,497)	\$ 149,359	\$ (70,497)
CAD\$ term deposit	-	1,200,000	-	1,200,000
US\$ term deposit	-	598,345	-	598,345
	\$ 149,359	\$ 1,727,848	\$ 149,359	\$ 1,727,848

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, 2007, except for changes disclosed in note 2 .

Omitted from these statements is 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, 2007.

The 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 related to litigation issues that are presently uncertain (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.

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. Change in Accounting Policies

Going Concern

Effective January 1, 2008, the Company adopted the modified CICA Handbook Section 1400 "General Standards of Financial Statement Presentation". The section requires that management make an assessment of the Company's ability to continue as a going concern over a period which is at least, but is not limited to, twelve months from the balance sheet date.

Capital Disclosures

Effective January 1, 2008, the Company adopted the CICA Handbook Section 1535 "Capital Disclosures". The new section establishes standards for disclosing information about an entity's capital and how it is managed. The new accounting standard only addresses disclosures and has no impact on the Company's financial results. This additional disclosure has been provided in note 10.

Inventories

Effective January 1, 2008, the Company adopted the CICA Handbook Section 3031 "Inventories" which replaces Section 3030. The new section provides guidance on the determination of cost and its subsequent recognition as an expense, including any write-down to net realizable value. It also provides guidance on the cost formulas that are used to assign costs to inventories.

Notes to Consolidated Financial Statements

The changes to this section affect the following, in particular:

Certain costs, such as storage costs and general and administrative expenses that do not contribute to bringing the inventories to their present location and condition, are excluded from the cost of inventories and expensed during the year in which they are incurred; and

The reversal of the write-down to net realizable value amounts, when there is a subsequent increase in the value of the inventories, is now required.

This change has no significant impact on the financial statements as at September 30, 2008.

Financial Instruments - Disclosures and Presentation

Effective January 1, 2008, the Company adopted the CICA Handbook Sections 3862 and 3863, "Financial Instruments - Disclosures" and "Financial Instruments - Presentation." These new sections place increased emphasis on disclosure about the nature and extent of risk arising from financial instruments and how the entity manages those risks. This change has no significant impact on the Company's financial position.

Future Accounting Pronouncements

In February 2008 the CICA issued Handbook Section 3064, "Goodwill and Intangible Assets" which replaces Section 3062 "Goodwill and Other Intangible Assets" and Section 3450 "Research and Development Costs." This standard provides guidance on the recognition of intangible assets in accordance with the definition of an asset and the criteria for asset recognition, clarifying the application of the concept of matching revenues and expenses, whether these assets are separately acquired or are developed internally. The standard applies to interim and annual financial statements for fiscal periods beginning on or after October 1, 2008. The Company is presently evaluating the impact of this standard but does not expect the adoption of this standard to have a material impact on its financial position.

In 2007 the CICA published an update to the Accounting Standards Board of Canada's ("AcSB") "Implementation Plan for Incorporating International Financial Reporting Standards ("IFRS") into Canadian GAAP". The plan outlines the key decisions that the CICA will need to make as it implements the Strategic Plan to converge Canadian GAAP standards with IFRS. While IFRS uses a similar conceptual framework to that of Canadian GAAP, there are still significant accounting policy differences that will need to be resolved. The CICA has confirmed January 1, 2011 as the change over from current Canadian GAAP to IFRS for publicly accountable companies. In sequence with these changes, the Company is currently developing its internal implementation plans to meet the guidelines of the future reporting requirements.

Notes to Consolidated Financial Statements

3. 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 September 30, 2008 and December 31, 2007	47,050,063	\$ 5,016,395

(c) Stock options outstanding are as follows:

Year of Expiration	Exercise Price	Number of Options Outstanding	
		September 30 2008	December 31 2007
2013	\$0.12	880,000	-
2013	\$0.25	240,000	-
2012	\$0.28	390,000	390,000
2012	\$0.30	100,000	100,000
2011	\$0.30	150,000	225,000
2011	\$0.27	150,000	150,000
2008	\$0.25	-	1,443,092
		1,910,000	2,308,092

(d) Warrants

	September 30 2008	December 31 2007
Issued and outstanding, beginning of period	4,806,608	774,066
Issued	-	4,806,608
Expired	-	(774,066)
Issued and outstanding, end of period	4,806,608	4,806,608

Exercise price	Number Outstanding	Expiry Date
\$0.31	464,513	February 27, 2009
\$0.45	4,342,095	February 27, 2009
	4,806,608	

Notes to Consolidated Financial Statements

4. Employee Future Benefits Obligation

	Nine Months Ended September 30	
	2008	2007
Unfunded balance, beginning of period	\$ 283,648	\$ 219,340
Current service cost	16,432	31,583
Interest costs on accrued obligation	22,146	17,227
Unfunded balance, end of period	\$ 322,226	\$ 268,150
Less current portion	\$ (200,750)	\$ -
	\$ 121,476	\$ 268,150

	Quarter Ended September 30	
	2008	2007
Unfunded balance, beginning of period	\$ 314,644	\$ 251,104
Current service cost	1,267	13,012
Interest costs on accrued obligation	6,315	4,034
Unfunded balance, end of period	\$ 322,226	\$ 268,150
Less current portion	\$ (200,750)	\$ -
	\$ 121,476	\$ 268,150

5. Long Term Debt

	September 30 2008	December 31 2007
Loan, payable at \$17,384 per month, principal and interest at 5.49%, secured by a general security agreement, due January, 2013	\$1,529,625	\$1,612,406
Less current portion	(129,835)	(112,638)
	\$1,399,790	\$1,499,768

The effective interest rate of 5.49% is a preferred rate and the monthly payments of \$17,384 reflect this preferred rate. In the event of default of any terms and conditions of the loan and enforcement of these terms and conditions by the lender, the preferred interest rate will be cancelled from the date of enforcement of the action. If such a circumstance were to arise, the interest rate would become 7.49% and result in monthly payments of \$18,925. The company is in compliance with all terms and conditions.

6. Related Party Transactions

	Nine Months Ended September 30	
	2008	2007
Royalties earned by employees and Directors	\$ 53,474	\$ 95,615
Amounts payable to employees and Directors included in royalties payable	\$ 39,142	\$ 21,038
Amounts receivable from an employee included in accounts receivable	\$ -	\$ 8,500
Sale of lawsuit interests to an employee	\$ -	\$ 25,000
Consulting fees paid to a company controlled by a director	\$ 63,000	\$ -

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.

Notes to Consolidated Financial Statements

7. Other Income (Expenses)

Other income (expenses) is comprised as follows:

	Nine Months Ended September 30	
	2008	2007
Foreign exchange gains (losses)	\$ 39,940	\$ (110,368)
Interest Income	12,926	23,347
Total other income (expenses)	\$ 52,866	\$ (87,021)

8. 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 also located in North America. The distribution of revenue by location of customer is as follows:

	Nine Months Ended September 30	
	2008	2007
North America	\$ 2,194,004	\$ 1,867,943
Other	984,913	802,977
	\$ 3,178,917	\$ 2,670,920

9. Contingency

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.

As of September 30, 2008, all claims related to the Saskatchewan Claim have been dismissed. Appeal proceedings with respect to the Final Trial Judgement were commenced during the quarter ended September 30, 2008.

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, will 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 (see note 12) 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.

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 indemnified the Board of Directors and certain past members of the Board of Directors in relation to the bond.

Notes to Consolidated Financial Statements

Until all decisions have been rendered, including any appellate rulings, the ultimate financial impact on the company remains uncertain, including any estimate of court costs. A significant court cost award against the Company could have a material impact on the Company's financial position. No provision has been made in the financial statements and the full financial impact, if any, will be recorded when the outcome of the litigation is known.

10. Capital Disclosures

The Company considers its capital to be working capital and its shareholder equity. The Company's objectives in managing capital is to ensure a sufficient liquidity position to finance its 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 2007.

11. 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; bank indebtedness, accounts payable and accrued liabilities, royalties payable, and employee future benefits obligation are classified as other liabilities and are also measured at amortized cost. The fair value of these instruments approximates their carrying amount due to their short-term nature. Long-term debt is classified as other liabilities. The fair value of long-term debt approximates its carrying value.

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

a) Credit risks:

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 86% of accounts receivable are due from four customers.

b) Liquidity risk:

Notes to Consolidated Financial Statements

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.

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 \$43,000 annually. The Company does purchase some materials and services in U.S. dollars. This amount will vary by product sold.

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 default, the rate would increase to 7.49% and result in an increase in the required monthly principal and interest payment by \$1,541.

12. SGGF Legal Fees

The SGGF legal fees represents legal fees presented to the Company for litigation services billed in 2008 by the Corporation's former litigation counsel. The former litigation counsel have indicated the invoices are due and payable from the Corporation. Management is of the opinion that it is not liable for the payment of these invoices unless it either sells further lawsuit interests to the group of lawsuit contributors or there are proceeds from the litigation. (See note 9).

13 Subsequent Events

Subsequent to September 30, 2008, the Company entered into an agreement with its former President and Chief Executive Officer to settle all employment and employee future benefit obligations. The terms of the agreement require a payment of \$37,500 in November 2008, \$53,750 on or before June 30, 2009, and \$53,750 on or before December 31, 2009. In addition the Company is required to make monthly payments commencing in November 2008 until August 2009 totaling \$109,500. As a result of this agreement, a total amount of \$200,750 has been classified as current liabilities.