

Dear Fellow Shareholder:

I am pleased to report that Ceapro continues to successfully execute its business plan. The initiatives undertaken during the past few years have increased product sales, making the results for the first six months of 2006 our best first half year results to date.

Revenue from product sales rose 23% to \$1.8 million, resulting in income from operations of \$133,000, compared with a loss of \$62,000 last year. Gross margins were strong at 58% of sales revenue, primarily as a result of higher product sales, greater economies of scale, and improvements in process efficiency.

In the second quarter, we generated income from operations of \$115,000, more than doubling the \$50,000 generated in the second quarter last year. The expansion of sales to existing customers and the introduction of new products to new customers have boosted sales of active ingredients, which are up 27% over the second quarter of last year. Increase sales of beta glucan were notable as new European customers placed orders ahead of new product introductions. Ceapro's export sales have continued to increase despite the continued strengthening of the Canadian dollar over the last few years.

We have sold more active ingredients in each of the first two quarters than ever before, and the second quarter set a new record for active ingredient sales of \$929,000. This success comes from strong relationships with our partners and the dedication and hard work of the Ceapro manufacturing team. We are encouraged with third quarter orders and look forward to growing sales throughout 2006.

In preparation for entering the US Veterinary Therapeutics market, we hired a full-time marketing manager at the beginning of June. Our market strategy calls for delivery and promotion of our animal health products through a regional network of distributors. We are currently developing a comprehensive brand strategy to create a single name for the US product range and to unify our marketing message. We anticipate that US product sales will commence by the end of this year.

Engineering and design studies relating to the expansion of manufacturing capacity are nearing completion. At the August 17, 2006 Board meeting, Ceapro's Directors approved the expansion plan subject to securing debt financing. We anticipate relocating our primary production of active ingredients later this year to the Agrivalve Processing Business Development Centre at Leduc. Expansion into a 4,000 square foot unit within the new centre will offer us the ability to operate continuous processes, expand production shifts, enhance operational parameters, and allow for streamlined production.

We have made strides in the development of CeaProve®, our diabetes screening product, identifying new applications in the areas of diabetes monitoring and drug dosage determination. In Canada, we have commenced the marketing campaign for CeaProve®. The campaign, "Know Your Numbers" promotes screening and awareness of the 'metabolic syndrome' and pre-diabetes in corporate environments. As part of a corporate wellness program, CeaProve® provides employers with a fast and effective way to ensure employees are in good health. We have also identified and opened discussions with US corporations conducting corporate wellness work.

On April 27, 2006, Ceapro received the prestigious international Frost & Sullivan 2006 Product Innovation Award, in recognition of CeaProve® as a pioneering point-of-care diagnostic product for Type 2 diabetes and pre-diabetes. This award can open doors for Ceapro to fulfill its goal to enhance health internationally, specifically addressing the global diabetes epidemic.

In June, Ceapro was named one of Canada's Fastest-Growing Companies as part of the 18th annual PROFIT 100, the definitive ranking of Canada's best and brightest growth firms. Ceapro's position was 173 in the top 200 companies.

Our outlook continues to be positive. We are encouraged by strong first half results and anticipate further revenue growth throughout 2006. Our objective for the remainder of 2006 is to increase revenues and utilize cash flow on a discretionary basis to enhance the scale of operations. As a strategic focus, we continue to concentrate on increasing sales and developing new opportunities, with emphasis placed on securing new pharmaceutical customers to use our active ingredients and launching our veterinary products in the United States. We are introducing CeaProve® to North American corporations as part of corporate wellness programs, and to healthcare providers internationally for point-of-care diagnosis of diabetes and impaired glucose tolerance.

Mark J. Redmond, Ph.D.
President and CEO
August 16, 2006

The MD&A provides commentary on the results of operations for the periods ended June 30, 2006 and 2005, financial position as at June 30, 2006 and December 31, 2005 and the outlook of Ceapro Inc. ("Ceapro") based on information available as at August 16, 2006. The following information should be read in conjunction with the unaudited interim consolidated financial statements as at June 30, 2006, 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, 2005. All comparative percentages are between the periods ended June 30, 2006 and 2005 and all dollar amounts are expressed in Canadian currency, unless otherwise noted. Additional information about Ceapro can be found on SEDAR at www.sedar.com.

FORWARD-LOOKING STATEMENTS

This MD&A offers our assessment of Ceapro's future plans and operations as at August 16, 2006, 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. We do not undertake to update or revise the forward-looking statements contained herein except as required by law.

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., and Ceapro Active Ingredients Inc., are incorporated under the Alberta Business Corporations Act. Ceapro is an innovation-driven biotechnology company. Our primary business activities relate to the development and commercialization of organic products for medical, cosmetic, and animal health industries using proprietary technology and natural, renewable resources.

Our products include:

- A commercial line of active ingredients, including *beta glucan*, *avenanthramides (colloidal oat extract and Drago-Calm)*, *oat powder*, and *oat oil*, which are marketed to the personal care and cosmetic industry through an exclusive agreement with our distribution partner, Symrise Inc.; and
- Veterinary therapeutic products, including an *oat shampoo*, an *ear cleanser* and a *dermal complex/conditioner*, which are marketed to veterinarians in Japan and Asia, through distribution agreements with Daisen Sangyo Co. Ltd., in Canada by Aventix Animal Health, and in the United Kingdom by Pharmavet Ltd.

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

- *CeaProve*[®], a diabetes test meal to identify Type 2 diabetes and pre-diabetes, to determine dosage levels for diabetes oral therapy, and to monitor the condition of pre-diabetics.
- A drug-delivery platform using our *beta glucan* technology to deliver compounds for uses ranging from wound care and therapy, to skin care treatments that reduce the signs of aging.
- An extension to the *active ingredients* offering, through new protein and new cereal grain extract products; and
- An extension to the existing veterinary products line, though new therapeutic products/formulations.

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. Our strategic focus is:

- 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 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 biotechnology 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 at each stage of our business process;
- 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, we rely upon revenues generated from the sale of active ingredients and veterinary therapeutic products, 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.

As substantially all sales are export sales to two distributors, we are dependent on those distributors to maintain and expand the volume of product sales to existing and new customers.

We have exposure to risk arising from volatility in foreign exchange rates as substantially all sales of our products are denominated in U.S. currency, while our expenses are primarily denominated in Canadian dollars. We do not currently engage in hedging or use of derivatives to reduce foreign exchange risk.

Ceapro's long-term debt has fixed interest rates over the terms of the obligations. Our exposure to interest rate and inflation risks are expected to be negligible as economic forecasts project a stable outlook for both interest rates and inflation in the near future.

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 our business and the biotechnology 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 our future growth and operating results, including the strength and demand for our products, the extent of competition in our markets, the ability to recruit and retain qualified personnel, and our ability to raise capital.

Our financial statements are prepared within a framework of GAAP selected by management and approved by our Board of Directors. The assets, liabilities, revenues, and expenses reported in our 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 employee future benefit 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. We continually evaluate the estimates and assumptions.

Disclosure Controls and Procedures

Disclosure controls and procedures have been designed to provide reasonable assurance that material information relating to the Company is accumulated and communicated to the Company's management as appropriate to allow timely decisions regarding required disclosure. The Company's Chief Executive Officer and Chief Financial Officer have concluded, based on their evaluation as at June 30, 2006, that the Company's disclosure controls and procedures are effective to provide reasonable assurance that material information related to the Company is made known to them by others within the Company. It should be noted that while the Company's Chief Executive Officer and Chief Financial Officer believe that the Company's disclosure controls and procedures provide a reasonable level of assurance that they are effective, they do not expect that the disclosure controls and procedures will prevent all errors or fraud. A control system, no matter how well conceived or operated, can only provide reasonable, not absolute, assurance that the objectives of the control system are met.

Results of Operations

– Six Months and Quarter Ended June 30, 2006 and 2005

SELECTED INFORMATION

<i>\$000s except per share data</i>	Six Months Ended June 30		Quarter Ended June 30	
	2006	2005	2006	2005
Total revenues	1,844	1,500	945	1,032
Income (loss) from operations	133	(62)	115	50
Net (loss) income	(55)	(55)	(3)	101
Basic (loss) income per share	(0.00)	(0.00)	(0.00)	0.00
Diluted (loss) income per share	(0.00)	(0.00)	(0.00)	0.00

The first six months of 2006 brought an increase in sales of \$344,000 or 23%. The sales of active ingredients increased by \$471,000 or 45%. Income from operations was \$133,000, an increase of \$195,000. There was a net loss over the first six months caused by \$39,000 in foreign exchange losses and \$148,000 of research and product development expenses. In 2005 the results included \$225,000 in other income from a one time Product Innovation Investment by AVAC.

The second quarter resulted in an increase in active ingredient sales of \$196,000 or 27%, but an overall decrease from the prior year total revenues of \$87,000 or 8.4% being due to the large animal health order of \$236,000 that usually occurs in the second quarter shipped in the first quarter of 2006. The quarter had income from operations of \$115,000, an increase of 130% over 2005. There was a net loss in the second quarter caused by \$41,000 in foreign exchange losses, and research and product development costs of \$77,000.

Revenue

\$000s	Six Months Ended June 30			Quarter Ended June 30		
	2006	2005	Change	2006	2005	Change
Product sales						
Active ingredients	1,516	1,045	45%	929	733	27%
Veterinary therapeutic products	328	375	(13%)	16	299	(95%)
	1,844	1,420	30%	945	1,032	-8%
Royalties, licenses, and product development fees	-	80	-%	-	-	-%
Total revenues	1,844	1,500	23%	945	1,032	-8%

PRODUCT SALES

Active ingredient sales continued the growth trend seen in 2005 having the best first six months and quarter sales to date.

Veterinary therapeutic product sales decreased over the first six months due to sales being in US dollars. Year-over-year the Canadian dollar was worth about 9% less than its US counterpart. The second quarter sales were significantly lower due to the timing of the large order that shipped in the first quarter of 2006 vs the second quarter in 2005.

ROYALTIES, LICENCES, AND PRODUCT DEVELOPMENT FEES

Royalties, licenses, and product development fees are revenue derived from the addition of new products to existing distribution agreements, activation of new distribution agreements, and scientific and technical services provided to customers for the creation and development of new products. No such fees were earned in the first six months of 2006. The \$80,000 earned in 2005 was the final portion of the product development fees, received in 2004, earned upon delivery of product to the customer for testing.

Expenses

COST OF GOODS SOLD AND GROSS MARGINS

\$000s	Six Months Ended June 30			Quarter Ended June 30		
	2006	2005	Change	2006	2005	Change
Sales	1,844	1,420		945	1,032	
Cost of goods sold	769	640		332	416	
Gross margin	1,075	780	38%	613	616	(-%)
Gross margin %	58%	55%		65%	60%	

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, and transportation 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 six months and second quarter of 2006, the gross margin percentage slightly improved, as a result of the increase in product sales; fixed production labour costs were absorbed over the higher product sales. The higher margin also reflects the increase in efficiencies from the new equipment installed in the prior year that is realized with higher production volumes.

GENERAL AND ADMINISTRATION

\$000s	Six Months Ended June 30			Quarter Ended June 30		
	2006	2005	Change	2006	2005	Change
Salaries and benefits	170	138		82	69	
Consulting	32	21		16	13	
Insurance	52	53		23	26	
Investor relations	70	68		51	43	
Legal	16	75		12	58	
Directors Compensation	49	45		27	32	
Other	123	122		66	79	
Total general and administration expenses	512	522	(2%)	277	320	(13%)

General and administration expense (G&A) for the first six months of 2006 decreased \$10,000 or 2% primarily due to a decrease in legal costs in 2006 of \$59,000 that related to protection of a patent. This was off set by an increase in salaries and benefits due to a stock option benefit of \$9,000 and increases in salaries. An increase in consulting of \$11,000 was due to the new consultants assisting with the pursuit of new growth opportunities. The Board of Directors compensation increased by \$4,000, due to an increase in the number of meetings held in the first six months of 2006. To date the Directors have reinvested their compensation received by exercising stock options and participating in private placements in Ceapro.

In the second quarter, the G&A expenses decreased by 13% or \$43,000 corresponding to the decrease for the first six months of 2006.

SALES AND MARKETING

\$000s	Six Months Ended June 30			Quarter Ended June 30		
	2006	2005	Change	2006	2005	Change
Salaries and benefits	99	85		51	42	
Travel	28	16		22	13	
Other	27	19		11	13	
Total sales and marketing	154	120	28%	84	68	24%

In the first six months of 2006 sales and marketing expenses increased by 28% largely due to increased sales trips to potential new customers, territories, and support of existing partners as we continue to grow our sales. A full time marketing manager was hired at the beginning of June to develop the Veterinary Therapeutics market in North America for Ceapro.

ROYALTIES

\$000s	Six Months Ended June 30			Quarter Ended June 30		
	2006	2005	Change	2006	2005	Change
Royalty interest units	195	125		100	86	
AVAC royalty	5	52		-	39	
Total royalties expenses	200	177	13%	100	125	(20%)
Recognition of deferred royalty revenue	(21)	-		(11)	-	
Net royalty expense	179	177	1%	89	125	(29%)

As at June 30, 2006, royalty investors receive royalties equal to 10.6% (2005 – 8.31%) 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 2006 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. March 31, 2006 marks AVAC fully earning the original product development investment that was received in 1999. AVAC's other investment royalties will be earned as those new products sell.

INTEREST & AMORTIZATION

\$000s	Six Months Ended June 30			Quarter Ended June 30		
	2006	2005	Change	2006	2005	Change
Interest on callable debt and other	4	7		2	3	
Interest on long-term debt	21	18		10	11	
Total interest expense	25	25	0%	12	14	(14%)
Amortization	72	79	(9%)	36	40	(10%)

Other Income (Expenses)

RESEARCH AND PRODUCT DEVELOPMENT

\$000s	Six Months Ended June 30			Quarter Ended June 30		
	2006	2005	Change	2006	2005	Change
Salaries and benefits	66	50		36	25	
Regulatory and patent	57	17		23	16	
Other	10	4		3	2	
	133	71	87%	62	43	44%
Product development - <i>CeaProve</i> [®]	206	156	32%	130	140	(7%)
Total Research and product development expenses	339	227	49%	192	183	5%
AVAC investment (<i>CeaProve</i> [®])	(190)	-		(115)	-	
Net research and product development expenses	149	227	(34%)	77	183	(58%)

For the first six months of 2006 research and product development expenses increased 49% primarily due to an increase in patent filing costs of \$40,000, versus 2005, relating to active ingredients. Our expectations are that patent expenses should be comparable to 2005 on an annual basis. Also increase in *CeaProve*[®] activities of \$50,000, which was offset by funds received under a product pre-commercialization investment agreement that was offset against *CeaProve*[®] product development charges.

The second quarter of 2006 increased 5% which was primarily due to an increase in patent filing costs of \$10,000, versus 2005, relating to active ingredients.

OTHER INCOME (EXPENSES)

\$000s	Six Months Ended June 30			Quarter Ended June 30		
	2006	2005	Change	2006	2005	Change
Sale of lawsuit interests (net of related legal expenses)	-	(3)		-	(3)	
AVAC - product innovation investment	-	225		-	225	
Foreign exchange gains (losses)	(39)	2		(41)	5	
Other	-	11		-	8	
Total other income (expenses)	(39)	235	(117%)	(41)	235	(117%)

Other income (expenses) was comprised of foreign exchange losses resulting primarily from an unrealized exchange loss on US dollar bank balance and accounts receivables for the first six months of 2006 and the second quarter of 2006.

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.

\$000s except per share data	2006		2005				2004	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Total revenues	945	899	608	654	1,032	469	469	414
Net (loss) income	(3)	(51)	123	(125)	101	(156)	(78)	(361)
Basic (loss) income per share	(0.00)	(0.00)	0.00	(0.00)	0.00	(0.00)	(0.00)	(0.01)
Diluted (loss) income per share	(0.00)	(0.00)	0.00	(0.00)	0.00	(0.00)	(0.00)	(0.01)

Ceapro's quarterly sales and results fluctuate due to variations in the timing of product sales. For example, a significant proportion of our annual veterinary therapeutic product sales are usually in the second quarter of the year, except in 2006 where it occurred in the first quarter.

Liquidity and Capital Resources

We rely upon revenues generated from the sale of active ingredients and veterinary therapeutic products, the proceeds of public and private offerings of equity securities and debentures, and income offerings to support our operations.

Ceapro has increased production capacity and expanded manufacturing operations at Leduc, Alberta, which completes Phase 1 of the expansion plans announced in the 2004 Annual Report. The investment in capital equipment has already provided returns through reduced costs and higher margins, expanded volumes, and a greater diversity of products. Phase 2 of the expansion plan began in the last quarter of 2005, as Ceapro commenced engineering and design studies for the potential expansion of manufacturing space to 4,000 square feet. The expanded area would offer space to operate continuous processes, expand production shifts, enhance production parameters, and allow streamlined production of pharmaceutical-grade active ingredients. Ceapro expects to require capital to complete this expansion which is expected to be completed in the fourth quarter of 2006.

During the first six months of 2006, 22,500 stock options were exercised at \$0.25. The amount credited to share capital upon exercise of the options is the cash consideration received, if applicable, plus the fair value of the options at the time they were granted (stock-based compensation).

Total common shares issued and outstanding as at August 16, 2006 were 37,098,670 (2005 – 36,355,950). In addition, 3,639,295 stock options (2005 – 3,548,115) and 774,066 warrants (2005 – 682,666) were

outstanding that are potentially convertible into an equal number of common shares at various prices. Shareholders' equity decreased to \$421,361 at June 30, 2006 from \$461,337 at December 31, 2005.

Ceapro's working capital position was \$991,000 at June 30, 2006, a decrease of \$13,000 from December 31, 2005. 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, we intend 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 our control, as outlined in the Risks and Uncertainties section. Should sufficient capital not be raised, we may have to delay, reduce the scope of, eliminate, or divest one or more of our discovery, research, or development technology or programs, any of which could impair the value of the business.

FINANCINGS AND MILESTONES

During the six month period and quarter ended June 30, 2006, investors agreed to purchase additional interests in the net proceeds, if any, from the SGGF claim. At June 30, 2006, investors are entitled to 70.8% (2005 – 49.5%) of the net proceeds, if any, from the SGGF claim, to a maximum \$17,770,779.

Related Party Transactions

During the first six months of 2006, \$61,039 royalties were earned by employees and Directors from their investment in previous Ceapro royalty offerings. Directors and employees invested \$85,000 in the sale of lawsuit interests during the first six months. At June 30, 2006, \$31,278 of royalties were payable to employees and Directors. Included in accounts receivable at June 30, 2006 is \$85,000 due from a Director and an employee for lawsuit financing. Included in accounts payable at June 30, 2006 is \$26,067 due to employees and directors. 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

On May 5, 1998, control of Ceapro's wholly-owned subsidiary, Canamino Inc. ("Canamino") was assumed by Canamino's Class B preferred shareholder, the Saskatchewan Government Growth Fund Ltd. ("SGGF") pursuant to a notice given March 30, 1998 by SGGF due to default of payment of dividends due in October, 1997, and the failure to redeem 500,000 Class B preferred shares as required under the subscription agreement. Control was gained through the assumption of 51% of the voting entitlement attached to the Class A common shares.

On March 22, 2002, Ceapro filed a Statement of Claim (subsequently amended on April 6, 2004) in the Court of Queen's Bench of Saskatchewan against the Government of Saskatchewan, Saskatchewan Government Growth Fund Management Corporation, Gary K. Benson, Janice MacKinnon, and Can-Oat Milling Products Inc. ("SGGF et al."). The action was launched to recover damages with respect to assets claimed to be seized wrongfully as a result of the Defendant's actions in 1998. With the filing in Saskatchewan, Ceapro stayed its action in the Court of Queen's Bench of Alberta. This action was originally filed in September 1999. The claim alleges that Ceapro has suffered damages for its loss of investment in Canamino and loss of reputation in the capital markets.

In 2003 Ceapro issued a bond relating to legal costs up to \$305,000, which was secured by personal guarantees of the Board of Directors and the Chief Executive Officer. By December 31, 2004, document production had occurred and Examinations for Discovery of the Defendants had been concluded. The examination of Ceapro's Chief Executive Officer commenced in October 2004, continued through 2005, and into 2006 for 38 days. The examination of Ceapro's Chief Executive Officer concluded on June 6, 2006. The legal process will continue through the fall of 2006, moving to the pre-trial conference to be held December 5-7, 2006 where mandatory judicial mediation will occur.

As of August 16, 2006, it is the opinion of Ceapro's Corporate Counsel that, based on the document production to date and examinations for discovery that have transpired, the most likely outcome of this action is that Ceapro will be successful. At this stage of the litigation, it is premature to quantify the damages

that may be awarded at the discretion of the Court and therefore, no amount has been accrued in the financial statements with respect to this claim.

Outlook

The initiatives undertaken during the past few years have resulted in an increase in product sales making the first six months of 2006 our best start to a year to date. In the first six months we have sold more active ingredients in each of the first two quarters than ever before, and the second quarter set a new record for active ingredient sales of \$929,000. This increase in sales can be attributed to strong relationships with our partners and the dedication and hard work of the Ceapro manufacturing team. We are encouraged with third quarter orders and look forward to growing sales throughout 2006.

While Ceapro incurred a loss in the second quarter of \$3,000, it did generate income from operations of \$115,000, and positive cash flow. The expansion of sales to existing customers, and the introduction of new products to new customers have boosted sales of active ingredients. Ceapro's export sales have continued to increase despite the continued strengthening of the Canadian dollar over the last few years.

Ceapro has made strides in the development of *CeaProve*[®], our diabetes screening product, identifying new applications in the areas of diabetes monitoring and drug dosage determination. On April 27, 2006 Ceapro received the prestigious international Frost & Sullivan 2006 Product Innovation Award for *CeaProve*[®].

During 2005 Ceapro continued to further develop new products for our Active Ingredient and Veterinary Therapeutic lines that will support further growth as these new products enter the market place in 2006. During 2006 Ceapro will also under go an expansion of our production facilities in order to ensure that we can increase our capacity to meet the anticipated increase in sales.

Ceapro will continue to pursue additional financings to fund ongoing working capital requirements and to secure the financial resources 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.

We intend to implement our operating plans in a measured and responsible manner. We caution that additional investments may be required to continue to grow the business and product lines and availability of these additional investments may affect the pace of growth.

Additional Information

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

Financial Statements

Unaudited Consolidated Financial Statements for the
Second Quarter Ended June 30, 2006

Cepro Inc.

Financial Statements

CEAPRO INC. Consolidated Balance Sheets

	June 30 2006 (Unaudited)	December 31 2005 (Audited)
ASSETS		
CURRENT ASSETS		
Cash	\$ 953,434	\$ 438,045
Accounts receivable	703,617	982,347
Inventories	189,652	228,158
Prepaid expenses and deposits	68,102	90,761
	1,914,805	1,739,311
PROPERTY AND EQUIPMENT (NET OF ACCUMULATED AMORTIZATION)	627,735	679,623
	\$ 2,542,540	\$ 2,418,934
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 673,863	\$ 284,863
Deferred revenue	-	229,676
Callable debt	59,384	81,584
Current portion of long-term debt	35,030	33,519
Current portion of royalties payable	156,009	106,508
	924,286	736,150
DEFERRED ROYALTY REVENUE	435,930	457,000
EMPLOYEE FUTURE BENEFITS OBLIGATION	188,344	159,946
LONG-TERM DEBT	418,830	436,731
ROYALTIES PAYABLE	153,789	167,770
	2,121,179	1,957,597
SHAREHOLDERS' EQUITY		
SHARE CAPITAL	2,421,524	2,414,830
CONTRIBUTED SURPLUS	114,932	106,888
DEFICIT	(2,115,095)	(2,060,381)
	421,361	461,337
	\$ 2,542,540	\$ 2,418,934

See accompanying notes

Financial Statements

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

	Six Months Ended June 30		Quarters Ended June 30	
	2006	2005	2006	2005
Revenue				
Sales	\$ 1,844,242	\$ 1,420,323	\$ 945,043	\$ 1,031,795
Cost of goods sold	768,800	640,152	331,687	415,849
Gross margin	1,075,442	780,171	613,356	615,946
Royalties, licenses, and product development fees	-	80,000	-	-
	1,075,442	860,171	613,356	615,946
Expenses				
General and administration	512,386	522,166	276,645	319,575
Royalties (net)	178,840	177,122	89,287	125,200
Sales and marketing	154,282	119,586	84,066	67,910
Amortization	71,962	78,820	36,231	39,925
Interest on long-term debt	20,576	18,254	10,197	10,897
Interest on callable debt and other	3,932	6,619	2,399	2,813
	941,978	922,567	498,825	566,320
Income (loss) from operations	133,464	(62,396)	114,531	49,626
Other income (expenses)				
Research and product development	(148,734)	(227,226)	(77,377)	(183,026)
Other income (expenses)	(39,444)	234,639	(40,582)	234,881
	(188,178)	7,413	(117,959)	51,855
Income (Loss) before income taxes	(54,714)	(54,983)	(3,428)	101,481
Income Taxes				
Current	84,000	76,000	61,000	102,000
Reduction as a result of applying non-capital losses carried forward against the current period's taxable income	(84,000)	(76,000)	(61,000)	(102,000)
NET (LOSS) INCOME FOR THE PERIOD	(54,714)	(54,983)	(3,428)	101,481
Deficit, beginning of period	(2,060,381)	(2,003,374)	(2,111,667)	(2,159,838)
Deficit, end of period	\$ (2,115,095)	\$ (2,058,357)	\$ (2,115,095)	\$ (2,058,357)
Net (loss) income per share:				
Basic	\$ (0.00)	\$ (0.00)	\$ (0.00)	\$ 0.00
Diluted	\$ (0.00)	\$ (0.00)	\$ (0.00)	\$ 0.00

See accompanying notes

Financial Statements

CEAPRO INC.
Consolidated Statements of Cash Flows
Unaudited

	Six Months Ended June 30		Quarters Ended June 30	
	2006	2005	2006	2005
Operating Activities				
Net (loss) income for the period	\$ (54,714)	\$ (54,983)	\$ (3,428)	\$ 101,481
Items not affecting cash				
Amortization	71,962	78,820	36,231	39,925
Employee future benefits obligation	28,398	6,000	15,498	3,000
Recognition of deferred royalty revenue	(21,070)	-	(10,797)	-
Stock based compensation	9,113	1,798	4,557	572
	33,689	31,635	42,061	144,978
Changes in Non-Cash Working Capital Items				
Accounts receivable	278,730	(246,531)	168,594	(79,078)
Inventories	38,506	75,000	(6,074)	42,728
Prepaid expenses and deposits	22,659	14,467	(2,449)	9,338
Accounts payable and accrued liabilities	389,000	(28,819)	201,113	(152,170)
Deferred revenue	(229,676)	(80,000)	(114,644)	-
	532,908	(234,248)	288,601	(34,204)
Investing Activities				
Purchase of property and equipment	(20,074)	(62,804)	(9,626)	(14,483)
Restricted cash for the purchase of property and equipment	-	49,880	-	11,252
	(20,074)	(12,924)	(9,626)	(3,231)
Financing Activities				
Repayment of long-term debt	(16,390)	(12,551)	(8,284)	(7,586)
Repayment of callable debt	(22,200)	(19,766)	(11,206)	(9,976)
Repayment of convertible debenture	-	(20,000)	-	(20,000)
Proceeds from issuance of share capital	-	204,800	-	-
Proceeds from exercise of stock options	5,625	9,500	-	-
Increase (decrease) in royalties payable	35,520	99,239	(64,307)	47,318
	2,555	261,222	(83,797)	9,756
Increase (decrease) in cash	515,389	14,050	195,178	(27,679)
Cash at beginning of period	438,045	96,266	758,256	137,995
Cash at end of period	\$ 953,434	\$ 110,316	\$ 953,434	\$ 110,316
Supplementary information:				
Interest paid	\$ 23,371	\$ 28,325	\$ 11,460	\$ 14,583
Royalties paid	\$ 164,393	\$ 77,883	\$ 164,393	\$ 77,883

See accompanying notes

Notes to Consolidated Financial Statements

1. Accounting Principles for Interim Financial Statements

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, 2005. Comparative figures for prior periods have been reclassified to conform to the current presentation.

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, 2005.

2. 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, 2005	37,076,170	\$ 2,414,830
Changes during the period:		
Exercise of options	22,500	5,625
Equity component of stock-based compensation, net	-	1,069
Balance, June 30, 2006	37,098,670	\$ 2,421,524

(c) Stock options outstanding are as follows:

Year of Expiration	Exercise Price	Number of Options Outstanding	
		June 30 2006	December 31 2005
2011	\$0.30	375,000	-
2010	\$0.28	250,000	250,000
2008	\$0.25	1,873,292	1,895,792
2007	\$0.17	809,003	809,003
2006	\$0.20	332,000	332,000
		3,639,295	3,286,795

(d) Warrants

	June 30 2006	December 31 2005
Issued and outstanding, beginning of period	774,066	-
Issued	-	774,066
Issued and outstanding, end of period	774,066	774,066

Exercise price	Number Outstanding	Expiry Date
\$0.60	682,666	September 30, 2006
\$0.75	91,400	December 28, 2007
	774,066	

Notes to Consolidated Financial Statements

3. Employee Future Benefits Obligation

	Six Months Ended June 30	
	2006	2005
Unfunded balance, beginning of period	\$ 159,946	\$ 76,586
Current service cost	17,559	4,000
Interest costs on accrued obligation	10,839	2,000
Unfunded balance, end of period	\$ 188,344	\$ 82,586

4. Related Party Transactions

	Six Months Ended June 30	
	2006	2005
Royalties earned by employees and Directors	\$ 61,039	\$ 32,853
Amounts payable to employees and Directors included in accounts payable and accrued liabilities	26,067	45,005
Amounts payable to employees and Directors included in royalties payable	31,278	18,827
Amounts receivable from employees and Directors included in accounts receivable	85,000	6,478
Sale of lawsuit interests to an employee and a Director	85,000	-

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.

5. Other Income (Expenses)

Other income (expenses) is comprised as follows:

	Six Months Ended June 30	
	2006	2005
Sale of lawsuit interests (net of the lawsuit expense)	\$ -	\$ (3,387)
AVAC Product Innovation Investment	-	225,000
Foreign exchange gains (losses) and other	(39,444)	13,026
	\$ (39,444)	\$ 234,639

6. 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 the Americas. All the assets of the Company, which support the revenues of the Company, are also located in the Americas. The distribution of revenue by location of customer is as follows:

	Six Months Ended June 30	
	2006	2005
Americas	\$ 1,295,196	\$ 893,020
Other	549,046	527,303
	\$ 1,844,242	\$ 1,420,323

Information For Investors

Directors

Edward Taylor, Chairman
Donald Byers
David Harvey
Donald Oborowsky
John Yewchuk
John Zupancic
Mark J. Redmond

Officers

Mark J. Redmond, Ph. D
President and Chief Executive Officer

Shawn McMillan, CA
Chief Financial Officer and Corporate Secretary

David Fielder, M. Sc.
Vice President Scientific Affairs

Head Office

1008 RTF University of Alberta
8308 - 114 Street
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Canada

Telephone: 1.780.421.4555
Fax: 1.780.421.1320
Website: www.ceapro.com
Email: info@ceapro.com

Registered Office

2900 Manulife Place
10180 - 101 Street
Edmonton, AB T5J 3V5
Canada

Auditors

Stout & Company LLP
1900 College Plaza
8215 - 112 Street
Edmonton, AB T6G 2C8
Canada

Corporate Counsel

Fraser Milner Casgrain LLP
2900 Manulife Place
10180 - 101 Street
Edmonton, AB T5J 3V5
Canada

Securities Counsel

Bryan & Company
2600 Manulife Place
10180 - 101 Street
Edmonton, AB T5J 3V5
Canada

Chartered Bank

TD Canada Trust
148 Edmonton Centre
1025 - 101 Street
Edmonton, AB T5J 2Y8

Stock Information

Listed on the TSX Venture Stock Exchange
Symbol: CZO

Transfer Agent & Registrar

Olympia Trust Company
460 Sunlife Place
10123 - 99 Street
Edmonton, AB T5J 3H1
Canada

Telephone: 1.780.496.9713
Fax: 1.780.408.3382

Change of Address

Registered Shareholders should notify the Company's Transfer Agent and Registrar at the address set out above.

Beneficial Owners should contact their respective brokerage firm to give notice of a change of address.

Financial Calendar

The Company's year-end is December 31.

The Annual Report is mailed in May.
Quarterly Reports are mailed in May, August, and November.

Equal Opportunity Employer

Ceapro Inc. is an equal opportunity employer and seeks to attract and retain the best-qualified people regardless of race, religion, national origin, gender, sexual orientation, age, or disability.