




CEAPRO
Nature Enhancing Life®

Q1 2012

Unaudited Condensed Consolidated Financial Statements for the First Quarter ended March 31, 2012

The MD&A provides commentary on the results of operations for the periods ended March 31, 2012 and 2011, the financial position as at March 31, 2012, and the outlook of Ceapro Inc. ("Ceapro") based on information available as at May 22, 2012. The following information should be read in conjunction with the unaudited interim condensed consolidated financial statements as at March 31, 2012, and related notes thereto, as well as the audited consolidated financial statements for the year ended December 31, 2011 and the Management's Discussion and Analysis (MD&A) for the year ended December 31, 2011 which are prepared in accordance with International Financial Reporting Standards (IFRS). All comparative percentages are between the periods ended March 31, 2012 and 2011 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 May 22, 2012, 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 unless 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., Ceapro Active Ingredients Inc., and Ceapro BioEnergy Inc. are incorporated under the Alberta Business Corporations Act. Ceapro (P.E.I.) Inc. is a wholly-owned subsidiary incorporated in Prince Edward Island. Ceapro USA Inc. is a wholly-owned subsidiary incorporated in the state of Nevada. Ceapro is a growth stage biotechnology company. Our primary business activities relate to the development and commercialization of natural products for personal care, cosmetic, medical, and animal health industries using proprietary technology and natural, renewable resources.

Our products include:

- A commercial line of natural active ingredients, including *beta glucan, avenanthramides (colloidal oat extract*), *oat powder, oat oil*, *oat peptides,* and *lupin peptides* which are marketed to the personal care, cosmetic, medical, and animal health industries through our distribution partners and direct sales; and

- Veterinary therapeutic products, including an *oat shampoo*, an *ear cleanser,* and a *dermal complex/conditioner*, which are manufactured and marketed to veterinarians in Japan and Asia, through agreements with Daisen Sangyo Co. Ltd.

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

- *CeaProve®*, a diabetes test meal to screen pre-diabetes and to determine dosage levels for diabetes oral therapy, and to monitor the condition of pre-diabetics;

- *A drug delivery* platform using our *beta glucan* technology to deliver compounds for uses ranging from wound care and therapy, to skin care treatments that reduce the signs of aging;

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

- A variety of novel manufacturing technologies including Supercritical Fluid drying technology which is currently being tested on oat beta glucan but may have application for multiple classes of compounds.

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:

- Identifying unique plant sources and technologies capable of generating novel natural products;
- Increasing sales and expanding markets for our current active ingredients;
- Developing and marketing additional high-value proprietary therapeutic natural products;
- Developing and improving manufacturing technologies to ensure efficiencies; and
- Advancing new partnerships and strategic alliances to develop new commercial active ingredients and manufacturing technologies.

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

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

- Adding value to all aspects of our business;
- Enhancing the health of humans and animals;
- Discovering, extracting, and commercializing new, therapeutic natural ingredients;
- Producing the highest quality work possible in products, science, and business; and
- Developing personnel through guidance, opportunities, and encouragement.

To support these objectives, we believe we have strong intellectual and human capital resources and we are developing a strong base of partnerships and strategic alliances to exploit our technology. The current economic environment provides challenges in obtaining financial resources to fully exploit opportunities. To fund our operations, Ceapro relies upon revenues primarily generated from the sale of active ingredients, and the proceeds of public and private offerings of equity securities, debentures, government grants and loans, and other investment offerings.

Risks and Uncertainties

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

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

a) Credit risk:

Accounts receivable
The Company makes sales to customers that are well-established and well-financed within their respective industries. Based on previous experience the counterparties had zero default rates and management views this risk as minimal. Approximately 87% of accounts receivable are due from two customers at March 31, 2012 and all accounts receivable are current. These main customers present good credit quality and historically have a high quality credit rating.

Cash and cash equivalents
The Company has cash and cash equivalents in the amount of $509,245 at March 31, 2012 and mitigates its exposure to credit risk on its cash balances by maintaining its bank accounts with Canadian Chartered Banks and investing in low risk, high liquidity investments.

The Company received $750,000 under a capital expenditure grant agreement and has presented this amount as deferred revenue and considers it restricted cash as it can be spent only for qualified expenditures.

There are no past due or impaired financial assets. The maximum exposure to credit risk is the carrying amount of the Company's accounts receivable, cash and cash equivalents, and restricted cash and cash equivalents. The Company does not hold any collateral as security.

b) Liquidity risk:

Liquidity risk relates to the risk that the Company will encounter difficulty in meeting its financial obligations. The long-term debt matures in January 2013. It is the intention of the Company that refinancing will be negotiated at that time should it be required. The Company may be exposed to liquidity risks if it is unable to collect its trade accounts receivable balances in a timely manner, which could in turn impact the Company's long-term ability to meet commitments under its current facilities. In order to manage this liquidity risk, the Company regularly reviews its aged accounts receivable listing to ensure prompt collections. The Company regularly reviews its cash availability and whenever conditions permit, the excess cash is deposited in short-term interest bearing instruments to generate revenue while maintaining liquidity. There is no assurance that the Company will obtain sufficient funding to execute its strategic business plan.

The following are the contractual maturities of the Company's financial liabilities and obligations.

	0 - 1 year $	1 - 3 years $	4 - 7 years $	Total $
Accounts payable and accrued liabilities	501,538	-	-	501,538
Long-term debt, including interest	1,082,995	-	-	1,082,995
Royalties interst payable	55,549	-	-	55,549
Royalty financial liability	81,164	170,162	-	251,326
Repayable research funding	55,000	14,113	-	69,113
Repayable CAAP funding	-	57,546	172,639	230,185
Total	1,776,246	241,821	172,639	2,190,706

c) Market risk

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

1. Foreign currency risk

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

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

		Foreign Exchange Risk (USD)	
	Carrying Amount (USD)	**-1% Earnings & Equity**	**+1% Earnings & Equity**
Financial assets			
Accounts receivable	474,396	4,744	(4,744)
Financial Liabilities			
Accounts payable and accrued liabilities	107,168	(1,072)	1,072
Total increase (decrease)		3,672	(3,672)

The carrying amount of accounts receivable and accounts payable and accrued liabilities in USD represents the Company's exposure at March 31, 2012.

2. Interest rate risk.

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

Management believes that changes in interest rates will not have a material impact on the Company as the Company's long-term debt is due in January, 2013.

3. Share price risk.

a) 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.

b) 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.

4. People and process risk.

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

Ceapro's consolidated financial statements are prepared within a framework of IFRS selected by management and approved by the Board of Directors. The assets, liabilities, revenues, and expenses reported in the consolidated financial statements depend to varying degrees on estimates made by management. An estimate is considered a critical accounting estimate if it requires management to make assumptions about matters that are highly uncertain and if different estimates that could have been used would have a material impact. The significant areas requiring the use of management estimates relate to provisions made for inventory valuation, amortization of property and equipment, the assumptions used in determining share-based compensation, the interest rates used in determining the employee future benefits obligation and the estimated sales projections to value the royalty financial liability. These estimates are based on historical experience and reflect certain assumptions about the future that we believe to be both reasonable and conservative. Actual results could differ from those estimates. Ceapro continually evaluates the estimates and assumptions.

i) Loss of key personnel:

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

ii) Interruption of raw material supply:

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

iii) Environmental issues:

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

iv) Regulatory compliance:

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

Future Accounting Pronouncements

<u>Financial instruments disclosure</u>

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

<u>Financial instruments</u>

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

<u>Consolidation</u>

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

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

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

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

<u>Joint ventures</u>

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

<u>Income taxes</u>

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

<u>Fair value measurement</u>

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

Financial statements presentation

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

Employee Benefits

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

Results of Operations

Periods Ended March 31, 2012, 2011, and 2010

CONSOLIDATED INCOME STATEMENT

$000s except per share data	2012	%	2011	%	2010	%
Total revenues	1,190	100%	1,534	100%	1,155	100%
Cost of goods sold	521	44%	612	40%	690	60%
Gross margin	669	56%	922	60%	465	40%
Research and product development	163	14%	187	12%	136	12%
General and administration	392	33%	305	20%	296	26%
Selling and marketing	71	6%	30	2%	21	2%
Finance costs	26	2%	47	3%	51	4%
Income (loss) from operations	17	1%	353	23%	(39)	-3%
Other operating loss	21	2%	23	2%	3	0%
Net income (loss)	(4)	0%	330	22%	(42)	-4%
Basic net income (loss) per common share	(0.000)		0.006		(0.001)	
Diluted net income (loss) per common share	(0.000)		0.006		(0.001)	

The Company's revenue decreased by 22% or $344,000 to $1,190,000 from $1,534,000 and cost of goods sold decreased by 15% or $91,000 to $521,000 from $612,000.

These negative changes resulted in a decrease in gross margin by 27% or $253,000 to $669,000 from $922,000.

Income from operations has decreased by $336,000 to $17,000 from $353,000.

There was a net loss in the first three months of 2012 ($4,000) in comparison with net income $330,000 in the same period of 2011 mostly due to a decrease in revenue.

Revenue

	Three Months Ended March 31,		Change
$000s	2012	2011	
Total revenues	1,190	1,534	-22%

PRODUCT SALES

The sales to the personal care industry in the first three months of 2012 decreased $344,000 or 22% primarily as a result of lower sales volumes of avenanthramides and beta glucan, the Company's main products. The lower sales are the result of normal quarterly fluctuations in customer demand.

Expenses

COST OF GOODS SOLD AND GROSS MARGIN

	Three Months Ended March 31,		Change
$000s	2012	2011	
Sales	1,190	1,534	-22%
Cost of goods sold	521	612	-15%
Gross margin	669	922	-27%
Gross margin %	56%	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 assurance and control, packaging, transportation costs, plant costs, and amortization on plant and equipment assets. Aside from labour, rent, quality control related expenses, overhead, and property plant and equipment amortization, the majority of costs are variable in relation to the volume of product produced or shipped.

The cost of goods sold fell by $91,000 or 15%, from $612,000 in the first three months of 2011 to $521,000 in 2012. The gross margin in the first three months of 2012 is lower by 27% due to lower sales of 22% and lower cost of goods sold of 15%. The gross margin percentage decreased by 4% from 60% in the first three months of 2011 to 56% in the same period of 2012.

RESEARCH AND PRODUCT DEVELOPMENT

	Three Months Ended March 31,		Change
$000s	2012	2011	
Salaries and benefits	166	134	
Regulatory and patents	7	23	
Other	(15)	10	
	158	167	-5%
Product development - Ceaprove®	5	20	-75%
Total research and product development expenditures	163	187	-13%

During the first three months of 2012 research and development expenses before *CeaProve*® development have decreased by 5% due to grant revenue recognition of discounted CAAP funding offsetting other cash costs. *CeaProve*® costs have decreased by 75% from $20,000 to $5,000 as a result of decreased costs for patents and decreased costs associated with contract manufacturing activities.

GENERAL AND ADMINISTRATION

	Three Months Ended March 31,		Change
$000s	2012	2011	
Salaries and benefits	107	94	
Consulting	86	50	
Board of Directors compensation	41	40	
Insurance	32	28	
Accounting and Audit fees	14	14	
Rent	22	23	
Public Company Costs	22	8	
Travel	17	12	
Depreciation	10	8	
Legal	20	3	
Other	21	25	
Total general and administration expenses	392	305	28%

General and administration expense for the first three months of 2012 increased by $87,000 or 28% from $305,000 to $392,000 as a result of increased expenses for salaries and benefits of $13,000, consulting of $36,000 most of which related to feasibility studies to review potential new manufacturing options, directors' compensation of $1,000, insurance of $4,000, public company costs of $14,000 mostly due to hiring an external investor relations consultant, travel of $5,000, depreciation of $2,000, and legal expenses of 17,000 offset by decreased rent of $1,000 and other expenses of $4,000.

SALES AND MARKETING

	Three Months Ended March 31,		Change
$000s	2011	2010	
Travel	18	10	
Consulting	45	9	
Advertising	2	2	
Courses & Conferences	-	8	
Other	6	1	
Total sales and marketing	71	30	138%

Sales and marketing expenses in the first three months of 2012 increased by $41,000 or 138% in comparison with the same period of 2011, due primarily to the initiation of a marketing strategy and branding project in early 2012.

The Company is currently anticipating launching new marketing initiatives for 2012 and anticipates continued participation at major personal care and cosmetic conferences, and travel to visit current and potential customers, as well as increased consulting fees to assist in identifying and implementing new marketing strategies and product branding assessments.

FINANCE COSTS

	Three Months Ended March 31,		Change
$000s	2011	2010	
Interest on royalty financial liability	10	13	
Interest on long-term loan	14	16	
Interest on convertible debentures	-	10	
Accretion of convertible debentures	-	8	
Accretion of CAAP loan	3	-	
Bank charges (interest income)	(1)	-	
	26	47	-45%

As at December 31, 2011, royalty investors received royalties equal to 2.285% (2010 – 2.285%) of revenues from product sales and royalty, license, and product development fees of active ingredients and veterinary therapeutic products and *CeaProve*®, to a maximum of two times the amount invested. AVAC Ltd. receives royalties of up to 2.5% to 5% of revenues from eligible product sales, to a maximum of one and a half to two times the amount invested. Royalty expense will vary directly with fluctuations in eligible product sales, royalty, license and product development fees, product sales mix, and any new royalty interest offerings that may be completed.

Finance costs decreased in the first three months of 2012 in comparison with the same period of 2011 due to decreasing interest expenses on royalty financial liabilities of $3,000 and interest on a long-term loan of $2,000 as a result of lower principal due to repayments.

On December 31, 2009, the Company issued secured convertible debentures for cash of $500,000. The debentures incurred interest at 8% per annum and matured on December 31, 2011. In the first three months of 2011 the Company recorded interest expense on convertible debentures in the amount of $10,000 and accretion of $8,000 versus no expenses in the first three months of 2012.

The Company entered into Canadian Agricultural Adaptation Program ("CAAP") repayable contribution agreements for total possible funding of $1,339,625 receivable over the period from October 7, 2010 through September 30, 2012. As the contributions are non-interest bearing, the fair value at inception is estimated as the present value of the principal payments required, discounted using the prevailing market rates of interest for a similar instrument estimated to be 15% per annum. The difference between the fair value of the contributions and the cash received is accounted for as a government grant. The first payment was received in the third quarter of 2011. Accretion of a CAAP loan was $3,000 in the period ended March 31, 2012 (2011 – nil).

OTHER OPERATING LOSS

	Three Months Ended March 31,		Change
$000s	2011	2010	
Foreign exchange losses	18	19	
Other losses	3	4	
	21	23	-9%

Foreign exchange losses in the first three months of 2012 were lower versus 2011 by $1,000.

DEPRECIATION AND AMORTIZATION EXPENSES

In the first three months of 2012 the total depreciation and amortization of $71,000 (2011 - $73,000) was allocated as follows: $11,000 to general and administration expense (2011 - $8,000), $58,000 to inventory (2011 - $17,000), and $2,000 (2011 - $48,000) to cost of goods sold.

QUARTERLY INFORMATION

The following selected financial information is derived from Ceapro's unaudited quarterly financial statements for each of the last eight quarters, all of which cover periods of three months. All amounts shown are in Canadian currency.

$000s except per share data	2012	2011				2010		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Total revenues	1,190	1,552	1,515	1,185	1,534	1,696	1,708	1,018
Net income (loss)	(4)	252	(108)	104	330	160	103	243
Basic net income (loss) per common share	(0.000)	0.005	(0.002)	0.002	0.006	0.003	0.002	0.005
Diluted net income (loss) per common share	(0.000)	0.005	(0.002)	0.002	0.006	0.003	0.002	0.005

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

Liquidity and Capital Resources

CAPITAL EMPLOYED

$000s	March 31, 2012	December 31, 2011
Non-current assets	2,337	2,307
Current assets	1,928	1,864
Current liabilities	(2,503)	(1,510)
Total assets less current liabilities	1,762	2,661
Non-current liabilities	1,240	2,143
Shareholders' equity (deficiency)	522	518
Total capital employed	1,762	2,661

Non-current assets increased by $30,000 due to a depreciation provision of $71,000 offset by the acquisition of $57,000 of property and equipment and $44,000 for a new license agreement for avenanthramide technology.

Current assets increased by $64,000 and cash decreased over 2011 by $83,000. Inventories were higher by $119,000; accounts receivables and prepaid expenses were higher by $28,000.

Current liabilities totaling $2,503,000 increased by the net amount of $993,000 due to increased $195,000 sales orders prepayments, royalty interest payable of $22,000, current portion of long-term debt was reclassified from non-current liabilities $927,000 and repaid $38,000, royalty financial liability increased $7,000 and reclassification of repayment of repayable research funding $18,000 and repayment of $16,000 offset by decreased trade payables and accrued liabilities of $123,000,.

Non-current liabilities totaling $1,240,000 decreased by the net amount of $903,000 due to an additional accrued employee future benefit obligation of $7,000 and a discounted CAAP loan recognized in the amount of $54,000 offset by reclassification to current liabilities of long-term debt in the amount of $927,000 and repayable research funding of $18,000 and decreased royalty financial liability in the amount of $19,000.

Shareholders' equity of $522,000 at March 31, 2012 improved by $4,000 from a shareholders' equity of $518,000 at December 31, 2011 due to the recognition of share-based compensation in contributed surplus of $8,000 offset by a net loss for the first three month of 2012 of $4,000.

NET DEBT

$000s	March 31, 2012	December 31, 2011
Cash and cash equivalents	509	592
Current financial liabilities	1,736	938
Non-current financial liabilities	296	1,206
Total financial liabilities	2,032	2,144
NET DEBT	1,523	1,552

**Current and non-current financial liabilities include accounts payable and accrued liabilities, long-term debt, current portion of long term debt, royalty interest payable, repayable research funding, current portion of repayable research funding, royalty financial liability, current portion of royalty financial liability, and a CAAP loan.*

The Company's net debt decreased by $29,000 mostly due to decreased accounts payable and accrued liabilities of $122,000, long-term debt repayment in the amount of $38,000, research funding repayment of $16,000 and royalty financial liability decreased $12,000 offset by a cash and cash equivalent decrease of $83,000, a CAAP loan discounted amount recognized of $54,000, and a royalty interest payable accrued of $22,000.

SOURCES AND USES OF CASH

The following table outlines our sources and uses of funds during 2011 and 2010.

	Three Months Ended March 31,	
$000s	2012	2011
Sources of funds:		
Funds generated from operations (cash flow)	53	463
Changes in non-cash working capital items	(74)	(110)
Repayable CAAP Funding	107	57
Repayable research funding	-	-
	86	410
Uses of funds:		
Purchase of property and equipment	(57)	(45)
Purchase of license	(44)	-
Interest paid	(14)	(16)
Repayable research funding repayment	(16)	-
Repayment of long term debt	(38)	(36)
	(169)	(97)
Net change in cash flows	(83)	313

Net change in cash flow decreased $396,000 in the first three months of 2012 in comparison with the same period of 2011.

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

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

Total common shares issued and outstanding as at May 22, 2012 were 60,278,948 (June 15, 2011 – 56,578,948). In addition, 3,070,000 stock options as at May 22, 2012 (June 15, 2011 – 3,105,000) were outstanding that are potentially convertible into an equal number of common shares at various prices.

Ceapro's working capital position was ($575,000) at March 31, 2012, which was decreased by $929,000 from $354,000 at December 31, 2011.

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.

During the year ended December 31, 2010, the Company was approved for non-repayable funding in the amount of $124,000 from Alberta Ingenuity. During the first quarter of 2012, the Company received $13,750 (2011 - $13,750) which was recorded as a reduction of research and product development expenses. The Company anticipates receiving an additional amount of $27,500 in 2012 under this program.

The Company was approved for non-repayable funding for up to 50% of eligible costs to a maximum of $99,900 under the Growing Forward Product Development program. The Company recognized $nil during the first three months of 2012 (2011 - $21,639) as a reduction of research and product development expenses. This program has now been completed.

The Company was approved for non-repayable funding in the amount of $50,000 for eligible costs from the Atlantic Canada Opportunities Agency. The Company recognized $nil during the period ended March 31, 2012 (2011 - $10,879) as a reduction of research and product development expenses. This program has now been completed.

The Company was approved for non-repayable funding to a maximum of $21,250 of eligible expenditures under the Novel Crops Initiative program from the Prince Edward Island Department of Agriculture. The Company recorded the amount of $5,000 as a reduction of research and product development expenditures under this program in the period ended March 31, 2012 (2011 - $nil). The Company anticipates receiving an additional amount of $5,000 in 2013 under this program.

The Company received a repayable non-interest bearing contribution for research and development expenditures totalling $100,000 by 2011 (2010 - $50,000 of the $100,000 was received) from Innovation PEI which is recorded as a repayable research funding liability on the consolidated balance sheet. The amount of $15,367 was repaid during 2011. The contribution is repayable quarterly at a rate of one percent of sales revenue subject to a minimum payment of $12,500 per quarter. The Company estimates the repayment of approximately $55,000 during the year ended December 31, 2012. During the first three months of 2012 the Company repaid $15,520.

The Company was approved for non-repayable grant funding from Innovation PEI for a maximum of $100,000. During the year ended December 31, 2011, the Company received $30,000 and recognized $19,500 against eligible expenses and $10,500 as deferred revenue. During the first three months of 2012, the Company recognized an additional $5,000 against eligible expenses and $5,500 remains in deferred revenue The Company anticipates an additional $70,000 could be received in 2012.

The Company is eligible to claim up to $1,339,625 of eligible research and development expenditures incurred in 2011 and 2012 under the Canadian Agricultural Adaptation Program. All amounts claimed under the program are repayable interest free over eight years beginning in 2013. The Company has received funding of $230,185 to date under this program.

During the year ended December 31, 2011, the Company commenced a research and development project agreement. Under this project the Company paid cash of $56,177 in 2011 and will make an additional payment of $28,236 in 2012. During the three months ended March 31, 2012, the Company incurred costs of $7,059 on this agreement. The other party to the research and development project agreement will make an in-kind contribution to the project of $42,262.

During the year ended December 31, 2011, the Company entered into a Contribution Agreement with AI-BIO Solutions for a non-repayable grant contribution totaling up to $1,600,000 towards the construction of a new bio-processing facility and subject to compliance with all terms and conditions of the agreement. In accordance with the agreement, the Company received $750,000 in 2011 presently classified as restricted cash and cash equivalents and deferred revenue, and anticipates additional amounts will be received as follows - $650,000 in 2012, $40,000 in 2013 and $160,000 in 2014. It is anticipated that as these amounts are expended they will be recorded as a reduction of capital cost.

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

Related Party Transactions

During the first three month of 2012, $4,000 (2011 - $6,000) of royalties were earned by employees and directors from their investment in previous Ceapro royalty offerings. As at March 31, 2012, $11,000 (2011 - $34,000) of royalties were payable to employees and directors.

At March 31, 2012 officers and directors owned $nil (2011 - $70,000) of convertible debentures. During the first three month of 2012, officers and directors earned $nil of interest on convertible debentures (2011 – $1,000).

During the first three months of 2012, the Company paid key management salaries, short-term benefits, consulting fees and director fees totaling $158,000 (2011 – $143,000) and key management personnel received share-based payments of $7,000 (2011 - $7,000).

During the first three months of 2012, directors converted $nil (2011 - $175,000) of fees payable to nil (2011 -1,590,909) common shares of the Company. Amounts payable to a company controlled by a director was $15,000 (2011 - $25,000). Amount payable to directors was $35,000 (2011 - $70,000).

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

Commitments and Contingencies

(a) During the year ended December 31, 2011, the Company and its wholly-owned subsidiary, Ceapro Veterinary Products Inc. were served with a statement of claim from AVAC Ltd. alleging damages of $724,500 pursuant to a product development agreement. The Company and Ceapro Veterinary Products Inc., have filed a statement of defense to refute the claim and believe it has strong defenses to the AVAC allegations. However, at this time the outcome of the litigation is uncertain and no provisions have been made in the consolidated financial statements on account of this litigation.

(b) During the quarter ended March 31, 2012, the Company and its wholly-owned subsidiary, Ceapro Technology Inc. were served with a statement of claim from AVAC Ltd. alleging damages of $1,470,500 pursuant to two product development agreements. The Company and Ceapro Technology Inc., have filed a statement of defense to refute the claim and believe it has strong defenses to the AVAC allegations. However, at this time the outcome of the litigation is uncertain and no provisions have been made in the consolidated financial statements on account of this litigation.

(c) During the year ended December 31, 2008, the Company entered into a licensing agreement with the University of Guelph for an exclusive variety of a mint plant. During the year ended December 31, 2011, the Company has entered into a new licensing agreement with the University of Guelph for additional market rights for the exclusive variety of a mint plant.

In accordance with the new agreement, there are future minimum royalty payments of $10,000 per annum starting in 2012 for royalty payments which will be calculated as 5% of net sales from products derived from the mint plants. The agreement is an executory contract and therefore all royalty payments under the contract will be recognized as they become due.

(d) During the period ended March 31, 2012 the Company has entered into a new license agreement for a new technology to increase the concentration of avenanthramides in oats. The Company shall pay an annual royalty percentage rate of 2% of sales, payable every January 1st and July 1st, subject to a minimum annual royalty payment according to the schedule below:

Year	Amount
2012	nil
2013	$12,500
2014	$37,500
2015	$50,000
2016	$50,000

And $50,000 each year thereafter while the license agreement remains in force.

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

Outlook

During the first quarter we launched a strategic marketing review to help determine the best way to increase the distribution and sales of Ceapro products across the globe. A US based company with exposure to the personal care industry was engaged to do a comprehensive review of our company and products, assess the markets, and determine the best strategy to grow.

While we have successfully focused most of our limited resources on developing good products and processes as a sound foundation for success, it is now time to invest significantly in building out our marketing and sales network with the appropriate expertise to assist us in that regard. We will also take the opportunity to assess the branding of Ceapro.

From a new business perspective, we have seen our new distribution partners get strong interest in Ceapro products and during the first quarter several new companies have begun formulating with Ceapro products and placing small initial orders. We are very pleased with their rapid acceptance and positive reception as our experience has shown that the sales cycle will often run two years or even longer for new customers.

Our research and collaboration efforts have continued to generate positive news which we expect will translate into large gains in the future for Ceapro. Of particular note is the licensing of key avenanthramide process technology from Agriculture and Agri-Foods Canada. This technology should support the growth of our flagship avenanthramide products by allowing for greater increases in output capacity and then enabling to pursue new markets like functional foods which were not previously possible due to the limited commercial supply. We believe that this market offers a great potential for our avenanthramides. Both pre-clinical and clinical research data suggests that consumption of avenanthramides have the ability to provide significant therapeutic benefits for conditions such as inflammatory bowel syndrome, colon cancer, and exercise induced inflammation. Given the expected availability of higher quantities and concentrations of avenanthramides, we are discussing with potential research partners and expect to support at least one relevant clinical study in the area of inflammatory diseases.

Beta glucan is another oat product with high potential. Ceapro customers currently utilize this ingredient for anti-aging, wound and skin repair formulations. However, Beta glucan is also the ingredient in oats that is well known to significantly reduce cholesterol levels (“the bad one”). In light of this opportunity, Ceapro has successfully created a high purity powder form of beta glucan from its liquid product at pilot scale using a novel supercritical fluid drying process. This may allow for new formulations to be launched into new markets like functional foods and drinks and pharmaceuticals. The technology has attracted the interest of third parties and may provide Ceapro an opportunity to generate additional value through out-licensing.

Our spearmint program is beginning its third growing season and we have developed protype extracts for analysis at our in-vitro lab in Charlottetown. While we are relatively early in our studies, we are pleased with the results we are seeing which confirm the strong commercialization potential of the plants source and extracts. Given spearmint's high concentration of rosmarinic acid and its recognized anti-inflammatory properties, there is currently an on-going clinical trial to confirm expected beneficial effects of drinking a spearmint tea for the improvement of conditions like osteoarthritis and cartilage degradation of the knee, a patholology that affects more than 10% of the Canadian population. We have high expectations for this product for which Ceapro obtained rights to this large potential market when it renegotiated the license agreement with the University of Guelph.

During the quarter Ceapro did incur additional expenditures related to a feasibility study for the establishment of a new manufacturing facility. Further investments will be required prior to making a final decision on the scope and location of the new facility. We will provide further information as decisions are made.

Additional Information

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

Unaudited Condensed Consolidated Financial Statements for the First Quarter Ended March 31, 2012

Ceapro Inc.

Notice of No Auditor Review of Condensed Interim Consolidated Financial Statements

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying condensed interim consolidated financial statements of Ceapro Inc. (the "Company") have been prepared by and are the responsibility of the Company management.

The Company's independent auditor has not performed a review of these consolidated financial statements in accordance with standards established by the Canadian Institute of Cartered Accountants for a review of interim financial statements by an entity's auditor.

CEAPRO INC.

Consolidated Balance Sheets

Unaudited

	March 31 2012	December 31 2011
	$	$
ASSETS		
Current Assets		
Cash and cash equivalents	509,245	592,259
Accounts receivable	478,979	465,446
Inventories (note 4)	810,119	691,411
Prepaid expenses and deposits	129,668	115,015
	1,928,011	1,864,131
Non-Current Assets		
Restricted cash and cash equivalents	750,000	750,000
Licenses (note 5)	79,314	36,000
Property and equipment (note 6)	1,507,271	1,520,659
	2,336,585	2,306,659
TOTAL ASSETS	4,264,596	4,170,790
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts payable and accrued liabilities	501,538	624,154
Current portion of deferred revenue	766,246	571,524
Current portion of long-term debt	1,043,155	154,465
Royalties interest payable	55,549	33,366
Current portion of royalty financial liability	81,164	74,057
Current portion of repayable research funding	55,000	52,133
	2,502,652	1,509,699
Non-Current Liabilities		
Royalty financial liability	170,162	189,566
Employee future benefits obligation (note 7)	194,581	187,302
Deferred revenue	750,000	750,000
Long-term debt	-	926,535
CAAP loan (note 9)	111,615	57,432
Repayable research funding	14,113	32,500
	1,240,471	2,143,335
Shareholders' Equity		
Share capital (note 8b)	6,315,858	6,315,858
Contributed surplus	404,864	397,631
Deficit	(6,199,249)	(6,195,733)
	521,473	517,756
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	4,264,596	4,170,790

CONTINGENCIES (note 14)

See accompanying notes

CEAPRO INC.

Consolidated Statements of Net Income (loss) and Comprehensive Income (loss)

Unaudited

	Three Months Ended March 31, 2012	2011
	$	$ (restated, note 18)
Revenue	1,189,513	1,533,594
Cost of goods sold	520,694	612,248
Gross margin	668,819	921,346
Research and product development	162,472	187,275
General and administration	391,888	304,511
Sales and marketing	71,426	30,028
Finance costs (note 12)	25,997	46,506
Income from operations	17,036	353,026
Other operating loss (note 11)	20,552	23,063
Net income (loss) and comprehensive income (loss) for the period	(3,516)	329,963
Net income (loss) per common share:		
Basic	(0.00)	0.01
Diluted	(0.00)	0.01
Weighted average number of common shares outstanding	60,278,948	56,508,241

See accompanying notes

CEAPRO INC.

Consolidated Statements of Changes in Equity

Unaudited

	Share Capital	Equity component of convertible debentures	Contributed surplus	Deficit (restated note 18)	Shareholders' capital (deficiency) (restated note 18)
	$	$	$	$	$
Balance December 31, 2011	6,315,858	-	397,631	(6,195,733)	517,756
Share-based payments	-	-	7,233	-	7,233
Net loss for the period	-	-	-	(3,516)	(3,516)
Balance March 31, 2012	6,315,858	-	404,864	(6,199,249)	521,473
Balance December 31, 2010	5,770,858	45,000	347,445	(6,818,306)	(655,003)
					-
Share issued for debt	175,000	-	-	-	175,000
Share-based payments	-	-	8,340	-	8,340
Net income for the period	-	-	-	329,963	329,963
Balance March 31, 2011	5,945,858	45,000	355,785	(6,488,343)	(141,700)

See accompanying notes

CEAPRO INC.
Consolidated Statements of Cash Flows
Unaudited

	Three Months Ended March 31, 2012 $	2011 $ (restated, note 18)
OPERATING ACTIVITIES		
Net income (loss) for the period	(3,516)	329,963
Adjustments to reconcile net income (loss) to cash provided by operating activities		
Finance costs	23,455	39,006
Depreciation and amortization	71,041	73,165
Accretion on convertible debentures	-	7,500
Accretion of CAAP loan	2,542	-
Grant revenue recognized	(55,463)	-
Employee future benefits obligation	7,279	5,162
Share-based payments	7,233	8,340
Net income (loss) for the period adjusted for non-cash items	52,571	463,136
CHANGES IN NON-CASH WORKING CAPITAL ITEMS		
Accounts receivable	(13,533)	125,817
Inventories	(118,708)	(132,374)
Prepaid expenses and deposits	(14,653)	(9,426)
Deferred revenue	194,722	-
Accounts payable and accrued liabilities	(121,877)	(94,697)
	(74,049)	(110,680)
	(21,478)	352,456
Interest paid	(14,308)	(16,277)
CASH GENERATED FROM OPERATIONS	(35,786)	336,179
INVESTING ACTIVITIES		
Purchase of property and equipment	(56,528)	(44,695)
Purchase of license	(44,439)	-
	(100,967)	(44,695)
FINANCING ACTIVITIES		
Repayment of long-term debt	(37,845)	(35,876)
Repayable CAAP Funding	107,104	56,958
Repayable research funding repayment	(15,520)	-
	53,739	21,082
Increase (decrease) in cash	(83,014)	312,566
Cash at beginning of period	592,259	186,690
Cash at end of period	509,245	499,256

See accompanying notes

The non-cash transaction described in note 8(b) has been excluded from the statement of cash flows.
Cash and cash equivalents are comprised of $250,913 (2011 - $499,256) on deposit with financial institutions and $258,332 (2011 - $nil) held in money market mutual funds.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2012 AND 2011.

1. NATURE OF BUSINESS OPERATIONS

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

The Company's head office address is Suite 4174 Enterprise Square, 10230 Jasper Avenue, Edmonton, AB T5J 4P6.

2. ACCOUNTING PRINCIPLES FOR INTERIM FINANCIAL STATEMENTS

These interim condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) applicable to the preparation of consolidated financial statements, including IFRS 34, "Interim Financial Reporting". The accounting principles and methods of computation adopted in these financial statements are the same as those of the annual financial statements for the year ended December 31, 2011.

Omitted from these statements are certain information and note disclosures normally included in the annual financial statements. The financial statements and notes presented should be read in conjunction with the annual financial statements for the year ended December 31, 2011.

The Audit Committee authorized these interim condensed consolidated financial statements for issue on May 22, 2012.

Basis for Presentation

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

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

All intercompany accounts and transactions have been eliminated on consolidation.

3. FUTURE CHANGES IN ACCOUNTING POLICIES

Financial instruments

The IASB intends to replace IAS 39 - Financial Instruments: Recognition and Measurement ("IAS 39") in its entirety with IFRS 9 - Financial Instruments ("IFRS 9") in three main phases. IFRS 9 will be the new standard for the financial reporting of financial instruments that is principles-based and less complex than IAS 39.

In November 2009 and October 2010, phase 1 of IFRS 9 was issued and amended, respectively, which addressed the classification and measurement of financial assets and financial liabilities. IFRS 9 requires that all financial assets be classified as subsequently measured at amortized cost or at fair value based on the company's business model for managing financial assets and the contractual cash flow characteristics of the financial assets. Financial liabilities are classified as subsequently measured at amortized cost except for financial liabilities classified as at fair value through profit or loss, financial guarantees and certain other exceptions. The effective date of IFRS 9 is for annual periods beginning on or after January 1, 2015 (with earlier application permitted). The Company has not yet assessed the impact that this new standard is likely to have on its consolidated financial statements.

Consolidation

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

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

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

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

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

Joint ventures

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

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

Income taxes

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

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

Fair value measurement

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

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

Financial statements presentation

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

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

Employee Benefits

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

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

4. INVENTORIES

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

	March 31, 2012 $	December 31, 2011 $
Raw materials	239,803	251,010
Work in progress	182,499	227,888
Finished goods	387,817	212,513
	810,119	691,411

Inventories expensed to cost of goods sold during the period ended March 31, 2012 is $506,063 (March 31, 2011 - $579,907).

5. LICENSES

During the period ended March 31, 2012 the Company has entered into a new license agreement for a new technology to increase the concentration of avenanthramides in oats. The Company paid a fee of $44,439 to cover previous patent costs and will amortize the license over 15 years commencing in April 2012 (see note 14(d)).

During the year ended December 31, 2011, the Company entered into a new licensing agreement with the University of Guelph for an exclusive variety of a mint plant. This agreement replaced the agreement the Company entered during the year ended December 31, 2008. The Company paid a licensing fee of $30,000 in 2008 and $15,000 in 2011 and will amortize the total license over 10 years being the term of the amended licensing agreement. Amortization of $1,125 has been included in general and administration for the period ended March 31, 2012 (2011 - $750) (see note 14(c)).

Cost of Licenses	$
Balance - December 31, 2011	45,000
Additions	44,439
Balance - March 31, 2012	89,439
Accumulated amortization	
Balance - December 31, 2011	9,000
Amortization	1,125
Balance - March 31, 2012	10,125
Net book value	
March 31, 2012	79,314
December 31, 2011	36,000

6. PROPERTY AND EQUIPMENT

Cost at	Equipment not available for use	Manufacturing Equipment	Office Equipment	Computer Equipment	Leasehold Improvements	Total
	$	$	$	$	$	$
January 1, 2012	207,750	2,784,962	77,281	257,393	120,364	3,447,750
additions	-	35,029	1,501	19,998		56,528
transfer to manufacturing equipment	(3,449)	3,449	-	-	-	-
March 31, 2012	204,301	2,823,440	78,782	277,391	120,364	3,504,278
Accumulated Depreciation at						
January 1, 2012		1,545,508	62,108	201,773	117,702	1,927,091
depreciation		62,319	758	5,429	1,410	69,916
March 31, 2012		1,607,827	62,866	207,202	119,112	1,997,007
Carrying value at						
March 31, 2012	204,301	1,215,613	15,916	70,189	1,252	1,507,271
January 1, 2012	207,750	1,239,454	15,173	55,620	2,662	1,520,659

Depreciation expense allocation for the following periods:

	Cost of goods sold	Inventory	G&A	Total
	$	$	$	$
Period ended March 31, 2012	1,970	58,303	9,643	69,916
Period ended March 31, 2011	48,708	16,740	6,967	72,415

7. EMPLOYEE FUTURE BENEFITS OBLIGATION

Accrued benefit obligation	**Three months Ended March 31, 2012 $**	Year Ended December 31, 2011 $
Unfunded balance, beginning of year	**187,302**	160,187
Current service cost	**5,317**	19,983
Interest costs on accrued benefit obligation	**1,962**	7,132
	194,581	187,302

Elements of defined benefit costs recognized in the year	**Three months Ended March 31, 2012 $**	Year Ended December 31, 2011 $
Current service cost	**5,317**	19,983
Interest cost on accrued benefit obligation	**1,962**	7,132
	7,279	27,115

8. SHARE CAPITAL

a. Authorized

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

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

b. Issued - Class A common shares

	Three months ended March 31, 2012		Year Ended December 31, 2011	
	Number of Shares	**Amount $**	Number of Shares	Amount $
Balance at beginning of the period	**60,278,948**	**6,315,858**	54,988,039	5,770,858
Changes during the period				
Shares issued for debt	**-**	**-**	5,290,909	545,000
Balance at end of the period	**60,278,948**	**6,315,858**	60,278,948	6,315,858

During the year ended December 31, 2011 the Company issued 3,700,000 common shares totaling $370,000 for the settlement of convertible debentures and 1,590,909 common shares totaling $175,000 for the settlement of debt owing to the Company's directors.

The settlement of debt owing to directors in the amount of $175,000 occurred during the three months ended March 31, 2011 and this transaction has been excluded from the statement of cash flows.

c. Stock options outstanding are as follows:

Fair Value at grant date	Exercise Price $	Year of Expiration	Weighted Average Contractual Life Remaining (years)	**March 31, 2012 Number of Options**	December 31, 2011 Number of Options
0.1141	0.15	2016	4.3	**400,000**	400,000
0.0620	0.10	2015	3.4	**570,000**	570,000
0.1042	0.13	2014	2.3	**900,000**	900,000
0.0836	0.12	2013	1.4	**600,000**	600,000
0.1494	0.25	2013	0.7	**210,000**	210,000
0.1864	0.28	2012	0.5	**390,000**	390,000
0.2182	0.30	2012	0	**-**	100,000
			2.3	**3,070,000**	**3,170,000**

9. CAAP LOAN

The balance of repayable contribution is derived as follows:

	Three months ended March 31, 2012 $	Year Ended December 31, 2011 $
Opening balance January 1,	57,432	-
Funding received or receivable	107,104	123,081
Grant revenue recognised	(55,463)	(69,990)
Accretion of CAAP loan	2,542	4,341
	111,615	57,432

Principal repayment required for amount received from inception to March 31, 2012 is $28,773 annually from 2013 through 2020.

10. RELATED PARTY TRANSACTIONS

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

	Three Months Ended March 31	
	2012 $	2011 $
Royalties earned by employees and directors	4,489	6,204
Amounts payable to employees and directors included in royalties payable	10,807	33,962
Convertible debentures owned by officers and directors	-	70,000
Interest earned in Convertible Debentures by officers and directors	-	1,400
Key management salaries, short-term benefits, consulting fees and director fees	157,585	143,000
Key management personnel share based payments	7,056	7,364
Director fees converted by directors to common shares	-	175,000
Consulting fees payable to a company controlled by a director in accounts payable and accrued liabilities	15,000	25,000
Amount payable to directors	35,000	70,000

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

11. OTHER OPERATING LOSS

	Three Months Ended March 31, 2012	2011
	$	$
Foreign exchange losses	17,705	19,052
Other expenses	2,847	4,011
	20,552	23,063

12. FINANCE COSTS

	Three Months Ended March 31, 2012	2011
	$	$
Interest on royalty financial liability	9,886	12,722
Interest on long-term loan	14,308	16,277
Interest on convertible debentures	-	10,000
Accretion of convertible debentures	-	7,500
Accretion of CAAP loan	2,542	-
Bank charges (interest income)	(739)	7
	25,997	46,506

13. SEGMENTED INFORMATION

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

	Three Months Ended March 31, 2012	2011
	$	$
United States	842,933	1,121,217
Other	311,343	410,135
Canada	35,237	2,242
	1,189,513	1,533,594

14. CONTINGENCIES AND COMMITMENTS

(a) During the year ended December 31, 2011 the Company and its wholly owned subsidiary, Ceapro Veterinary Products Inc. were served with a statement of claim from AVAC Ltd. alleging damages of $724,500 pursuant to a product development agreement. The Company and Ceapro Veterinary Products Inc., have filed a statement of defense to refute the claim and believe it has strong defenses to the AVAC allegations. However at this time the outcome of the litigation is uncertain and no provisions have been made in the consolidated financial statements on account of this litigation.

(b) During the quarter ended March 31, 2012, the Company and its wholly owned subsidiary, Ceapro Technology Inc. were served with a statement of claim from AVAC Ltd. alleging damages of $1,470,500 pursuant to two product development agreements. The Company and Ceapro Technology Inc., have filed a statement of defense to refute the claim and believe it has strong defenses to the AVAC allegations. However at this time the outcome of the litigation is uncertain and no provisions have been made in the consolidated financial statements on account of this litigation.

(c) During the year ended December 31, 2008 the Company entered into licensing agreement with the University of Guelph for an exclusive variety of a mint plant. During the year ended December 31, 2011, the Company has entered into a new licensing agreement with the University of Guelph for additional market rights for the exclusive variety of a mint plant.

In accordance with the new agreement, there are future minimum royalty payments of $10,000 per annum starting in 2012 for royalty payments which will be calculated as 5% of net sales from products derived from the mint plants. The agreement is an executory contract and therefore all royalty payments under the contract will be recognized as they become due.

(d) During the period ended March 31, 2012 the Company has entered into a new license agreement for a new technology to increase the concentration of avenanthramides in oats. The Company shall pay an annual royalty percentage rate of 2% of sales, payable every January 1st and July 1^{st,} subject to a minimum annual royalty payment according to the schedule below:

Year	Amount
2012	nil
2013	$12,500
2014	$37,500
2015	$50,000
2016	$50,000

And $50,000 each year thereafter while the license agreement remains in force.

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

15. FINANCIAL INSTRUMENTS

The fair value of cash and cash equivalents, restricted cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities and royalties interest payable approximate their carrying amount due to their short-term nature. The fair value of long-term debt is estimated to approximate its carrying value because the interest rate does not differ significantly from current interest rates for similar types of borrowing arrangements.

The Canadian Agricultural Adaptation Program ("CAAP") loan is recorded at the amount drawn under the agreement, discounted using the prevailing market rate of interest for a similar instrument, which represents the estimated fair value of the obligation.

The repayable research funding is recorded at the amount drawn under the agreement which represents the estimated fair value of the obligation plus the deferred interest benefit that will be recognized systematically over the term of the loan.

The fair value of the CAAP loan and the repayable research funding are not materially different from their carrying amounts as funding received has been discounted using an estimate of a market rate of interest and is being accreted back to its nominal amount.

The royalty financial liability was estimated using a discount rate that results from the estimated future repayment of that obligation. As there has been no significant change in estimated future repayments, and as the estimated discount rate also approximates the company's estimated cost of capital for similar borrowing arrangements, management believes the carrying amount of this obligation does not differ significantly from its fair value.

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

a) Credit risk:

Accounts receivable
The Company makes sales to customers that are well-established and well-financed within their respective industries. Based on previous experience the counterparties had zero default rates and management views this risk as minimal. Approximately 87% of accounts receivable are due from two customers at March 31, 2012 and all accounts receivable are current. These main customers present good credit quality and historically have a high quality credit rating.

Cash and cash equivalents
The Company has cash and cash equivalents in the amount of $509,245 at March 31, 2012 and mitigates its exposure to credit risk on its cash balances by maintaining its bank accounts with Canadian Chartered Banks and investing in low risk, high liquidity investments.

The Company received $750,000 under a capital expenditure grant agreement and has presented this amount as deferred revenue and considers it restricted cash as it can be spent only for qualified expenditures.

There are no past due or impaired financial assets. The maximum exposure to credit risk is the carrying amount of the Company's accounts receivable, cash and cash equivalents and restricted cash and cash equivalents. The company does not hold any collateral as security.

b) Liquidity risk:

Liquidity risk relates to the risk that the Company will encounter difficulty in meeting its financial obligations. The long-term debt matures in January 2013. It is the intention of the Company that refinancing will be negotiated at that time should it be required. The Company may be exposed to liquidity risks if it is unable to collect its trade accounts receivable balances in a timely manner, which could in turn impact the Company's long-term ability to meet commitments under its current facilities. In order to manage this liquidity risk, the Company regularly reviews its aged accounts receivable listing to ensure prompt collections. The Company regularly reviews its cash availability and whenever conditions permit; the excess cash is deposited in short-term interest bearing instruments to generate revenue while maintaining liquidity. There is no assurance that the Company will obtain sufficient funding to execute its strategic business plan.

The following are the contractual maturities of the Company's financial liabilities and obligations.

	0 - 1 year $	1 - 3 years $	4 - 7 years $	Total $
Accounts payable and accrued liabilities	501,538	-	-	501,538
Long-term debt, including interest	1,082,995	-	-	1,082,995
Royalties interest payable	55,549	-	-	55,549
Royalty financial liability	81,164	170,162	-	251,326
Repayable research funding	55,000	14,113	-	69,113
Repayable CAAP funding	-	57,546	172,639	230,185
Total	1,776,246	241,821	172,639	2,190,706

c) Market risk:

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

1. Foreign currency risk

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

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

	Carrying Amount (USD)	Foreign Exchange Risk (USD)	
		-1% Earnings & Equity	+1% Earnings & Equity
Financial assets			
Accounts receivable	474,396	4,744	(4,744)
Financial Liabilities			
Accounts payable and accrued liabilities	107,168	(1,072)	1,072
Total increase (decrease)		3,672	(3,672)

The carrying amount of accounts receivable and accounts payable and accrued liabilities in USD represents the Company's exposure at March 31, 2012.

2. Interest rate risk.

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

Management believes that changes in interest rates will not have a material impact on the Company as the Company's long-term debt is due in January, 2013.

16. CAPITAL DISCLOSURES

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

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

The Company is not subject to externally imposed capital requirements and the Company's overall strategy with respect to capital risk management remains unchanged from the year ended December 31, 2011.

17. INCOME (LOSS) PER COMMON SHARE

	Three months Ended March 31, 2012	2011
Net income (loss) for the period	$ (3,516)	$ 329,963
Interest not incurred on convertible debentures if converted	-	10,000
Net income (loss) for the period for diluted earnings per share calculation	(3,516)	339,963
Weighted average number of shares outstanding	60,278,948	56,508,241
Potential shares to be issued for convertible debentures outstanding	-	5,000,000
Potential shares to be issued for options exercisable	-	216,667
Diluted shares outstanding	60,278,948	61,724,908
Income (loss) per share - basic	$ (0.00)	$ 0.01
Income (loss) per share - diluted	$ (0.00)	$ 0.01

As the Company was in a net loss position during the three months ended March 31, 2012, the conversion of convertible securities is anti-dilutive.

For the period ended March 31, 2011, of the Company's 3,105,000 options outstanding, 2,600,000 stock options have not been included in the diluted income per share calculation because the options' exercise prices were greater than the average market price of the common shares during the period.

18. PRIOR PERIOD CORRECTION

On transition to IFRS the Company initially recognized a liability on a license agreement pursuant to IAS 37 in the quarters. After additional consideration, as at December 31, 2011, management determined that the license agreement should not have resulted in the recognition of a liability on transition (see note 14(c)). The comparative financial results for the three months ended March 31, 2011 have been restated to reflect the correct accounting treatment. As a result of this adjustment liabilities at March 31, 2011 decreased by $132,078, deficit decreased by $132,078, finance costs decreased by $4,774 and net income for the three months ended March 31, 2011 increased by $4,774.