

Q1

2008 QUARTERLY REPORT

FINANCIAL STATEMENTS FOR THE
FIRST QUARTER ENDED
MARCH 31, 2008



Management's Discussion & Analysis

The MD&A provides commentary on the results of operations for the periods ended March 31, 2008 and 2007, the financial position as at March 31, 2008 and December 31, 2007, and the outlook of Ceapro Inc. ("Ceapro") based on information available as at May 23, 2008. The following information should be read in conjunction with the unaudited interim consolidated financial statements as at March 31, 2008, and related notes thereto, which are prepared in accordance with Canadian generally accepted accounting principles (Canadian GAAP) for interim statements, as well as the audited consolidated financial statements and Management Discussion and Analysis (MD&A) for the year ended December 31, 2007. All comparative percentages are between the periods ended March 31, 2008 and 2007 and all dollar amounts are expressed in Canadian currency, unless otherwise noted. Additional information about Ceapro can be found on SEDAR at www.sedar.com.

FORWARD-LOOKING STATEMENTS

This MD&A offers an assessment of Ceapro's future plans and operations as at May 23, 2008, and contains forward-looking statements. By their nature, forward-looking statements are subject to numerous risks and uncertainties, including those discussed below. You are cautioned that the assumptions used in the preparation of forward-looking information, although considered reasonable at the time of preparation, may prove to be imprecise and, as such, undue reliance should not be placed on forward-looking statements. Actual results, performance or achievements could differ materially from those expressed in, or implied by, these forward-looking statements. No assurance can be given that any of the events anticipated will transpire or occur, or if any of them do so, what benefits Ceapro will derive from them. The Company disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise.

Vision, Core Business, and Strategy

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

Our products include:

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

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

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

An extension to *the active ingredients* product range offering, through new plant extract products;

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

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

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

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

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

To support these objectives, we believe we have the requisite resources (intellectual and human capital) and the competitive advantages (partnerships) to exploit our technology. To fund our operations, Ceapro relies upon revenues primarily generated from the sale of active ingredients, and the proceeds of public and private offerings of equity securities, debentures, and other income offerings.

Risks and Uncertainties

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

These financial statements have been prepared on a going concern basis which assumes that the Company will continue in operation for the foreseeable future and accordingly will be able to realize its assets and discharge liabilities in the normal course of operations. Since inception, the Company has accumulated net losses, negative operating cash flow and has not yet achieved consistent profitability. The Company has relied on the proceeds of public and private offerings of equity securities and debentures, debt, and other income offerings to support the Company operations. The Company potentially faces material financial exposures related to litigation issues that are presently uncertain. The Company's ability to continue as a going concern is dependent on obtaining additional financial capital, achieving profitability, and generating positive cash flow to continue as a going concern. These financial statements do not reflect the adjustments that might be necessary to the carrying amount of reported assets, liabilities and revenues and expenses and the balance sheet classification used if the Company were unable to continue operations.

A substantial portion of Ceapro's sales are currently to five distributors; the Company is dependent on those distributors for a substantial portion of its sales. The Company recently launched a new Organic based line of products and signed new distribution agreements with multiple parties.

Ceapro has exposure to risk arising from volatility in foreign exchange rates as substantially all sales of our products are denominated in United States 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 may reduce this risk in the future by selling some products in other currencies.

Ceapro's long-term debt has a fixed interest rate over the term of the obligation. The Company's exposure to interest rate risk is mitigated by having fixed rate debt.

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

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

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

Change in Accounting Policies

Going Concern

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

Capital Disclosures

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

Inventories

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

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

- Certain costs, such as storage costs and general and administrative expenses that do not contribute to bringing the inventories to their present location and condition, are excluded from the cost of inventories and expensed during the year in which they are incurred; and
- The reversal of the write-down to net realization value amounts when there is a subsequent increase in the value of the inventories is now required.

This change has no significant impact on the financial statements as at March 31, 2008.

Financial Instruments - Disclosures and Presentation

Effective January 1, 2008 the Company adopted the CICA Handbook's Section 3862 and 3863, Financial Instruments – Disclosures and Presentation. These new sections will place increased emphasis on disclosure about the nature and extent of risk arising from financial instruments and how the entity manages those risks.

Future Accounting Changes

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

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

Results of Operations

Three Months and Quarter Ended March 31, 2008, 2007, and 2006

SELECTED INFORMATION

| <i>\$000s except per share data</i> | 2008 | 2007 | 2006 |
|-------------------------------------|---------------|--------|--------|
| Total revenues | 852 | 962 | 899 |
| (Loss) income from operations | (437) | 99 | 19 |
| Net (loss) income | (609) | (22) | (51) |
| Basic (loss) income per share | (0.01) | (0.00) | (0.00) |
| Diluted (loss) income per share | (0.01) | (0.00) | (0.00) |

The first three months of fiscal 2008 saw a decrease in revenues of \$110,000 or 11%. The sales of active ingredients to the personal care industry increased by \$25,000 or 3%. Sales to the animal health industry declined by \$135,000 or 78%. The timing of orders for the animal health industry can often vary between quarterly reporting periods.

There was a net loss in the first quarter of \$609,000. Loss from operations was \$437,000 compared with income from operations of \$99,000 in 2007 largely due to lower revenues, higher cost of sales, and higher operating expenses. Research costs increased \$100,000 due to higher expenses incurred for salaries and benefits, regulatory and patents, and *Ceaprove*®. Expenses of \$18,000 during the quarter were incurred for a bio-energy feasibility study net of funding revenue of \$44,000.

Revenue

| <i>\$000s</i> | 2008 | 2007 | Change |
|----------------------------|-------------|------------|-------------|
| Total Product sales | 852 | 962 | -11% |

PRODUCT SALES

Active ingredient sales to the personal care industry in the first quarter of 2008 were the highest to date and reflect the growing market acceptance of the Company's products.

Sales decreased to the animal health industry by 78% as orders were placed in the second quarter this year.

Expenses

COST OF GOODS SOLD AND GROSS MARGINS

| <i>\$000s</i> | 2008 | 2007 | Change |
|-----------------------|-------------|------|-------------|
| Sales | 852 | 962 | |
| Cost of products sold | 565 | 410 | |
| Gross margin | 287 | 552 | -48% |
| Gross margin % | 34% | 57% | |

The 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 for raw materials which are variable in relation to the volume of product produced or shipped.

Margins were significantly lower in 2008 due to sharply higher labour and raw material costs and the challenges to attract qualified labour, a sales mix that had higher sales volume of lower margin products, and a write-down of \$16,000 in the value of finished veterinary products inventory. The lower margin also reflects the commissioning difficulties from the new equipment installed in the prior year, additional facility limitations imposed by the landlord, and additional equipment rental charges for equipment the Company has not yet been able to acquire.

GENERAL AND ADMINISTRATION

| <i>\$000s</i> | 2008 | 2007 | Change |
|--------------------------------------------------|-------------|------|--------|
| Salaries and benefits | 132 | 87 | |
| Board of Directors compensation | 38 | 19 | |
| Investor relations costs | 46 | 40 | |
| Insurance costs | 28 | 25 | |
| Legal fees | 13 | 8 | |
| Consulting fees | 24 | 8 | |
| Other | 127 | 59 | |
| Total general and administration expenses | 408 | 246 | 66% |

General and administration expense (G&A) for the first quarter of 2008 increased \$162,000 or 66%. Most other G&A items have increased in 2008. Salaries increased due to the hiring of human resources personnel, administrative assistance, and stock based compensation. The Board of Directors compensation increased due to a new fee structure introduced in 2007 to attract and retain quality candidates. Consulting fees increased due to assistance provided for business development. Additional recruitment costs were incurred to hire new employees.

SALES AND MARKETING

| <i>\$000s</i> | 2008 | 2007 | Change |
|----------------------------------|-------------|------|--------|
| Salaries and benefits | 100 | 46 | |
| Other | 38 | 27 | |
| Total sales and marketing | 138 | 73 | 89% |

Sales and marketing expenses increased by 89% largely due to the hiring of a Vice President of Business Development for a one year term, who was employed by the Company until May 2008. This contract was not renewed. There was also an increase in travel costs and conference expenses associated with market expansion and production of corporate promotional material.

ROYALTIES

| <i>\$000s</i> | 2008 | 2007 | Change |
|-----------------------------------------|-------------|-----------|--------|
| Royalty interest units | 90 | 102 | -12% |
| Recognition of deferred royalty revenue | (10) | (11) | |
| Net royalty expense | 80 | 91 | -12% |

As at March 31, 2008, royalty investors receive royalties equal to 10.59% (2007 – 10.59%) of revenues from product sales and royalty, license, and product development fees of active ingredients and veterinary therapeutic products, to a maximum of twice the amount invested. AVAC receives royalties of up to 2.5% to 5% of revenues from eligible product sales, to a maximum of one and a half to twice the amount invested. Royalty expense throughout 2008 will vary directly with fluctuations in product sales, royalty, license, and product development fees, product sales mix, and any new royalty interest offerings or AVAC investments that may be completed. No royalties have been payable to date on AVAC investments except for the original 1999 investment. 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 earning fully the original product development investment that was received in 1999.

INTEREST & AMORTIZATION

| <i>\$000s</i> | 2008 | 2007 | Change |
|-------------------------------------|------|------|--------|
| Interest on callable debt and other | | 1 | |
| Interest on long-term debt | 21 | 10 | |
| Total interest expense | 21 | 11 | 91% |
| Amortization | 77 | 32 | 141% |

Interest costs rose as a result of higher long-term debt utilized to purchase new plant equipment. Amortization was significantly higher as a result of new equipment additions in the production plant and new leasehold improvements required.

Other Income (Expenses)

RESEARCH AND PRODUCT DEVELOPMENT

| <i>\$000s</i> | 2008 | 2007 | Change |
|----------------------------------------------------|------|------|--------|
| Salaries and benefits | 56 | 31 | |
| Regulatory and patent | 27 | 7 | |
| Other | 12 | 8 | |
| | 95 | 46 | 107% |
| Product development - <i>CeaProve</i> [®] | 107 | 56 | |
| Research and product development expenditures | 202 | 102 | 98% |

Research and product development expenses increased 98% primarily due to an increase in salary and benefit costs, regulatory and patents, and an increase \$51,000 in costs for *CeaProve*[®].

BIO-ENERGY FEASIBILITY STUDY

During the quarter the bio-energy feasibility study moved towards completion. This study was completed on April 30, 2008. Costs incurred were \$62,000 for the quarter offset by \$44,000 in accrued contribution revenue from Government funding. The accrued government contribution funding for this project of \$44,000 is expected to be received in the second quarter.

OTHER INCOME

Other income is comprised of \$42,000 in foreign exchange gains during the period ended March 31, 2008 and \$7,000 of interest income.

QUARTERLY INFORMATION

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

| | 2008 | | 2007 | | 2006 | | | |
|-------------------------------------|--------|--------|--------|--------|--------|-------|--------|------|
| <i>\$000s except per share data</i> | Q1 | Q4 | Q3 | Q2 | Q1 | Q4 | Q3 | Q2 |
| Total revenues | 852 | 776 | 591 | 1,119 | 962 | 704 | 762 | 945 |
| Net (loss) income | (609) | (528) | (602) | (237) | (22) | (122) | (96) | (3) |
| Basic (loss) income per share | (0.01) | (0.01) | (0.01) | (0.01) | (0.00) | 0.00 | (0.00) | 0.00 |
| Diluted (loss) income per share | (0.01) | (0.01) | (0.01) | (0.01) | (0.00) | 0.00 | (0.00) | 0.00 |

Ceapro's quarterly sales and results can fluctuate due to variations in the timing of product sales. The Company has signed new distribution agreements for new products, which are expected to expand the market and be reflected in sales in the second half of 2008.

Liquidity and Capital Resources

Ceapro relies 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 the Company's operations.

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

Total common shares issued and outstanding as at May 23, 2008 were 47,050,063 (May 3, 2007 – 37,505,505). In addition, 2,653,092 stock options (May 3, 2007 – 3,107,460) and 4,806,608 warrants (May 3, 2007 – 91,400) were outstanding that are potentially convertible into an equal number of common shares at various prices. Shareholders' equity decreased to \$987,000 at March 31, 2008 from \$1,554,000 at December 31, 2007.

Ceapro's working capital position was \$704,000 at March 31, 2008, a decrease of \$721,000 from December 31, 2007. Ceapro continues to pursue additional financings to fund ongoing working capital requirements, and to secure the financial resources required to support the expected increases in sales of existing products, the introduction of new products to existing and new markets, and the development of new technology.

To meet future requirements, Ceapro intends to raise additional cash through some or all of the following methods: public or private equity or debt financing, income offerings, capital leases, collaborative and licensing agreements, and joint venture or partnership financings. However, there is no assurance of obtaining additional financing through these arrangements on acceptable terms, if at all. The ability to generate new cash will depend on external factors, many beyond the Company's control, as outlined in the Risks and Uncertainties section. Should sufficient capital not be raised, Ceapro may have to delay, reduce the scope of, eliminate, or divest one or more of its discovery, research, or development technology or programs, any of which could impair the value of the business.

Related Party Transactions

During the first quarter of 2008, \$14,535 of royalties was earned by employees and Directors from their investment in previous Ceapro royalty offerings. At March 31, 2008, \$27,807 of royalties were payable to employees and Directors. Consulting fees of \$11,812 were paid to a company controlled by a Director for the quarter ending March 31, 2008. These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

Legal Proceedings

Ceapro Inc. commenced litigation against a number of defendants in 2002 in the Court of Queen's Bench of Saskatchewan (the "Saskatchewan Claim"). The defendants against whom the case proceeded to trial were the Government of Saskatchewan, Saskatchewan Government Growth Fund Ltd. (SGGF), Saskatchewan Government Growth Fund Management Corporation (SGGFMC), Gary K. Benson, Janice MacKinnon, and Can-Oat Milling Products Inc. The Saskatchewan Claim raises numerous causes of action against various of the defendants including a claim against all based in civil conspiracy. Ceapro claims damages in excess

of \$19 million for loss of its investment in Canamino Inc., plus additional damages for loss of goodwill and other losses and for other relief.

As of December 31, 2007, the Saskatchewan Claim had proceeded part way through trial. Subsequently, after the close of Ceapro's case and prior to completion of the trial, all of the defendants filed non-suit applications. By a judgment dated February 19, 2008, four of the six defendants were successful and the trial judge dismissed all the claims against them. The aspect of the claim of civil conspiracy which was plead against all defendants was also dismissed against the remaining two defendants. The other allegations against the remaining two defendants, SGGF and SGGFMC, survived the non-suit application and the trial of those claims continued until the end of the trial on March 27, 2008. With respect to the dismissal ruling, Ceapro has brought an application which was heard on April 14, 2008, to have a notice of appeal filed. The decision on this application has been reserved. The Final Trial Judgment is now under reserved decision and a release of that decision is expected before June 30, 2008.

Legal fees and other direct costs associated with the lawsuit for all periods have been funded by the Company only from funds received from lawsuit contributors who, in exchange, will receive interests in the proceeds (if any) from the Saskatchewan Claim; and through agreements with the Company's legal counsel to accept a portion of their fees on a contingency basis. Consequently, no costs associated with the lawsuit are included in the Company's financial statements. In addition, the Company was required to post a bond relating to legal costs up to \$305,000 which was secured by guarantees of certain members of the current and past Board of Directors and an Officer of the Company. The Company has indemnified the Board of Directors, certain past members of the Board of Directors, and an Officer in relation to the bond.

The outcome of the surviving aspects of the Saskatchewan Claim has not yet been determined. Until all decisions have been rendered, including any appellate rulings, the ultimate financial impact on the company remains uncertain, including any estimate of court costs. Ceapro may be successful in some aspects of the litigation and not others, and this could impact court costs. A significant court cost award could have a material impact on the Company's financial position. No provision has been made in the financial statements and the full financial impact, if any, will be recorded when the outcome of the litigation is known.

The financial statements do not reflect legal invoices in the amount of \$649,330 which have been received but not been funded by lawsuit contributors. None of the legal expenses associated with the Saskatchewan Claim have been funded by the Company and from the outset all costs have been funded by lawsuit contributors. Subsequent to March 31, 2008, the company received an additional invoice in the amount of \$57,426 with respect to the Saskatchewan Claim.

Outlook

The initiatives undertaken during the past few years will support an increase in product sales. Ceapro is encouraged with second quarter orders and looks forward to growing sales throughout 2008 to record levels. While Ceapro incurred a loss in the first quarter, management is focused on rectifying difficulties with the startup on the expanded facilities. The expansion of sales to existing customers, and the introduction of new products to new customers should boost sales of active ingredients. The Company looks forward to the completion of its plant expansion to meet the growing demand for its products.

Ceapro has made strides in the development of *CeaProve*[®], its diabetes screening product. The Company is currently engaged in discussions with other parties to complete a transaction. There is no assurance that a transaction will be completed.

During 2008 Ceapro will continue to further develop new products for its Active Ingredient business and is reviewing in-licensing opportunities that have been presented to the Company in recognition of the strength of Ceapro's core extraction technology and in recognition of proven track-record of product commercialization. The sale of additional new extracts is expected to drive increases in revenues and enhance profitability in the future.

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

Additional Information

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

**Unaudited Consolidated Financial Statements for the
First Quarter Ended March 31, 2008**

Cepro Inc.

CEAPRO INC.
Consolidated Balance Sheets

| | March 31 2008 (Unaudited) | December 31 2007 (Audited) |
|-------------------------------------------------------------|------------------------------------------|----------------------------------|
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash and cash equivalents | \$ 398,461 | \$ 1,282,326 |
| Accounts receivable | 956,365 | 708,165 |
| Inventories | 313,596 | 156,584 |
| Prepaid expenses and deposits | 96,753 | 130,100 |
| | 1,765,175 | 2,277,175 |
| RESTRICTED CASH | 50,000 | 50,000 |
| PROPERTY AND EQUIPMENT (NET OF ACCUMULATED AMORTIZATION) | 2,382,644 | 2,260,418 |
| | \$ 4,197,819 | \$ 4,587,593 |
| LIABILITIES | | |
| CURRENT LIABILITIES | | |
| Accounts payable and accrued liabilities | \$ 666,656 | \$ 494,413 |
| Current portion of deferred revenue | 55,270 | 107,007 |
| Current portion of long-term debt | 111,000 | 112,638 |
| Current portion of royalties payable | 228,276 | 138,185 |
| | 1,061,202 | 852,243 |
| DEFERRED ROYALTY REVENUE | 313,387 | 328,377 |
| EMPLOYEE FUTURE BENEFITS OBLIGATION | 299,146 | 283,648 |
| LONG-TERM DEBT | 1,480,986 | 1,499,768 |
| ROYALTIES PAYABLE | 55,923 | 69,905 |
| | 3,210,644 | 3,033,941 |
| SHAREHOLDERS' EQUITY | | |
| SHARE CAPITAL | 5,016,395 | 5,016,395 |
| CONTRIBUTED SURPLUS | 301,482 | 259,329 |
| DEFICIT | (4,330,702) | (3,722,072) |
| | 987,175 | 1,553,652 |
| | \$ 4,197,819 | \$ 4,587,593 |

See accompanying notes

CEAPRO INC.**Consolidated Statements of Net Loss, Comprehensive Loss, and Deficit**

Unaudited

Three Months and Quarter Ended March 31
2008 **2007**

| | | |
|-------------------------------------------------------|------------------|-----------------|
| Revenue | | |
| Sales | \$ 851,967 | \$ 961,627 |
| Cost of goods sold | 564,554 | 410,136 |
| Gross margin | 287,413 | 551,491 |
| Expenses | | |
| General and administration | 408,113 | 246,120 |
| Royalties | 80,375 | 90,854 |
| Sales and marketing | 137,762 | 72,771 |
| Amortization | 77,129 | 32,146 |
| Interest on long-term debt | 21,456 | 9,631 |
| Interest on callable debt and other | - | 625 |
| | 724,835 | 452,147 |
| (Loss) income from operations | (437,422) | 99,344 |
| Other income (expenses) | | |
| Research and product development | (202,160) | (101,962) |
| Bioenergy feasibility study | (18,236) | (22,714) |
| Other income | 49,188 | 3,636 |
| | (171,208) | (121,040) |
| NET LOSS AND COMPREHENSIVE LOSS FOR THE PERIOD | (608,630) | (21,696) |
| Deficit, beginning of period | (3,722,072) | (2,332,738) |
| Deficit, end of period | \$ (4,330,702) | \$ (2,354,434) |
| Net loss per share: | | |
| Basic | \$ (0.01) | \$ (0.00) |
| Diluted | \$ (0.01) | \$ (0.00) |

CEAPRO INC.
Consolidated Statements of Cash Flows
Unaudited

Three Months and Quarter Ended March 31
2008 **2007**

| | | | |
|-----------------------------------------------------|-----------|------------------|-------------------|
| Operating Activities | | | |
| Net loss and comprehensive loss for the period | \$ | (608,630) | \$ (21,696) |
| Items not affecting cash | | | |
| Amortization | | 77,129 | 32,146 |
| Employee future benefits obligation | | 15,498 | 16,266 |
| Recognition of deferred royalty revenue | | (9,733) | (10,986) |
| Stock based compensation | | 42,153 | 11,121 |
| | | (483,583) | 26,851 |
| Changes in Non-Cash Working Capital Items | | | |
| Accounts receivable | | (248,200) | (345,476) |
| Inventories | | (157,012) | (88,286) |
| Prepaid expenses and deposits | | 33,347 | 44,755 |
| Accounts payable and accrued liabilities | | 172,243 | 322,038 |
| Deferred revenue | | (56,994) | (11,257) |
| | | (740,199) | (51,375) |
| Investing Activities | | | |
| Purchase of property and equipment | | (199,355) | (15,885) |
| Deposits for the purchase of property and equipment | | - | (55,785) |
| | | (199,355) | (71,670) |
| Financing Activities | | | |
| Repayment of long-term debt | | (20,420) | (8,853) |
| Repayment of callable debt | | - | (11,872) |
| Increase (decrease) in royalties payable | | 76,109 | 13,328 |
| | | 55,689 | (7,397) |
| Decrease in cash and cash equivalents | | (883,865) | (130,442) |
| Cash and cash equivalents at beginning of period | | 1,282,326 | 310,926 |
| Cash and cash equivalents at end of period | \$ | 398,461 | \$ 180,484 |
| Supplementary information: | | | |
| Interest paid | \$ | 21,456 | \$ 10,256 |
| Royalties paid | \$ | - | - |
| Cash and cash equivalents consist of: | | | |
| Cash on deposit with bank | \$ | 98,461 | \$ 65,194 |
| Canadian \$ term deposit | | 300,000 | - |
| US \$ term deposit | | - | 115,290 |
| | \$ | 398,461 | \$ 180,484 |

1. Accounting Principles for Interim Financial Statements and Going Concern

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

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

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

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3. Share Capital

(a) Authorized

Unlimited number of Class A voting common shares

Unlimited number of Class B non-voting common shares

(b) Issued

Class A common shares

| | Number of Shares | Amount |
|-----------------------------------------------|-----------------------------|---------------|
| Balance, March 31, 2008 and December 31, 2007 | 47,050,063 | \$ 5,016,395 |

(c) Stock options outstanding are as follows:

| Year of Expiration | Exercise Price | Number of Options Outstanding | |
|-------------------------------|---------------------------|--------------------------------------|-----------------------------|
| | | March 31 2008 | December 31 2007 |
| 2013 | \$0.25 | 345,000 | - |
| 2012 | \$0.28 | 390,000 | 390,000 |
| 2012 | \$0.30 | 100,000 | 100,000 |
| 2011 | \$0.30 | 225,000 | 225,000 |
| 2011 | \$0.27 | 150,000 | 150,000 |
| 2008* | \$0.25 | 1,443,092 | 1,443,092 |
| | | 2,653,092 | 2,308,092 |

*The expiry date is May 9, 2008.

(d) Warrants outstanding are as follows:

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

| Exercise price | Number Outstanding | Expiry Date |
|----------------|--------------------|-------------------|
| \$0.31 | 464,513 | February 27, 2008 |
| \$0.45 | 4,342,095 | February 27, 2008 |
| | 4,806,608 | |

4. Employee Future Benefits Obligation

| | March 31 2008 | December 31 2007 |
|---------------------------------------|------------------|---------------------|
| Unfunded balance, beginning of period | \$ 283,648 | \$ 219,340 |
| Current service cost | 8,706 | 37,918 |
| Interest costs on accrued obligation | 6,792 | 26,390 |
| Unfunded balance, end of period | \$ 299,146 | \$ 283,648 |

5. Related Party Transactions

| | Three Months Ended March 31 | |
|------------------------------------------------------------------------------------|-----------------------------|-----------|
| | 2008 | 2007 |
| Royalties earned by employees and Directors | \$ 14,535 | \$ 35,675 |
| Amounts payable to employees and Directors included in royalties payable | 27,807 | 60,782 |
| Amounts receivable from a Director and an employee included in accounts receivable | - | 310,000 |
| Prepaid expense relating to Director fees | - | 28,566 |
| Sale of lawsuit interests to a Director | - | 160,000 |
| Consulting fees paid to a company controlled by a Director | 11,812 | - |

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.

6. Other Income

Other income is comprised as follows:

| | Three Months Ended March 31 | |
|------------------------|-----------------------------|----------|
| | 2008 | 2007 |
| Interest income | \$ 7,005 | 2,698 |
| Foreign exchange gains | 42,183 | 938 |
| | \$ 49,188 | \$ 3,636 |

7. Segmented Information

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

| | Three Months Ended March 31 | |
|---------------|-----------------------------|-------------------|
| | 2008 | 2007 |
| North America | \$ 631,817 | \$ 675,181 |
| Other | 220,150 | 286,446 |
| | \$ 851,967 | \$ 961,627 |

8. Contingencies and Commitments

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

As of December 31, 2007, the Saskatchewan Claim had proceeded part way through trial. Subsequently, after the close of Ceapro's case and prior to completion of the trial, all of the defendants filed non-suit applications. By a judgement dated February 19, 2008, four of the six defendants were successful and the trial judge dismissed all the claims against them. The aspect of the claim of civil conspiracy which was plead against all defendants was also dismissed against the remaining two defendants. The other allegations against the remaining two defendants, SGGF and SGGFMC, survived the non-suit application and the trial on those claims continued to the end of the trial on March 27, 2008. With respect to the dismissal ruling, Ceapro has brought an application which was heard on April 14, 2008, to have a notice of appeal filed. The decision on this application has been reserved. The Final Trial Judgement is now under reserved decision and a release of that decision is expected before June 30, 2008.

Legal fees and other direct costs associated with the lawsuit for all periods have been funded by the Company only from funds received from lawsuit contributors who, in exchange, will receive interest in the proceeds (if any) from the Saskatchewan Claim; and through agreements with the Company's legal counsel to accept a portion of their fees on a contingency basis. Consequently, no costs associated with the lawsuit are included in the Company's financial statements. In addition, the Company was required to post a bond relating to legal costs up to \$305,000 which was secured by guarantees of certain members of the current and past Board of Directors and an Officer of the Company. The Company has indemnified the Board of Directors, certain past members of the Board of Directors, and an Officer in relation to the bond.

The outcome of the surviving aspects of the Saskatchewan Claim have not yet been determined. Until all decisions have been rendered, including any appellate rulings, the ultimate financial impact on the company remains uncertain, including any estimate of court costs. Ceapro may be successful in some aspects of the litigation and not others, and this could impact court costs. A significant court cost award against the Company could have a material impact on the Company's financial position. No provision had been made in the financial statements and the full financial impact, if any, will be recorded when the outcome of the litigation is known.

The financial statements do not reflect legal invoices in the amount of \$649,330 which have been received but not funded by lawsuit contributors. None of the legal expenses associated with the Saskatchewan Claim have been funded by the Company and from the outset all costs have been funded by lawsuit contributors.

9. Capital Disclosures

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Subsequent to March 31, 2008 the Company received a further legal invoice in the amount of \$57,426 with respect to the Saskatchewan Claim. (See note 8.)

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