



2006 QUARTERLY REPORT

FINANCIAL STATEMENTS FOR THE  
FIRST QUARTER ENDED MARCH 31,  
2006

**CEAPRO**  
Nature Enhancing Life<sup>®</sup>

**Q1**



## Dear Fellow Shareholder:

First quarter revenues continued to grow, maintaining the strong positive trend achieved in 2005. We continue to focus on growth by increasing sales and developing new opportunities, with emphasis placed on securing new pharmaceutical customers to use our active ingredients and launching our veterinary products in the United States. We are introducing CeaProve® to Canadian corporations, as part of corporate wellness programs, and to several countries for point-of-care diagnosis of diabetes and impaired glucose tolerance.

We have realized a significant 73% increase in sales of oat extracts most notably to Johnson and Johnson, for use in line-extensions to the Aveeno® brand of skincare products. Further market and customer interest in beta glucan has led to a 61% increase in sales over the same period in 2005. Brennen Medical has also increased their orders for beta glucan for use in the wound-care market, and Genzyme has introduced a beta glucan-based hernia treatment. Ceapro's technical team continues to develop these markets by working with new customers in developing over-the-counter products containing pharmaceutical beta glucan.

In our latest annual report we announced our intention to open the US market for our animal health products. Our market strategy calls for distribution and promotion through a regional network of suppliers. In preparation for entering this market we are developing a comprehensive brand strategy to create a single name for the US product range, which will create brand equity and a unified marketing message across the country. We anticipate making further US market announcements later this year.

Earlier in the spring, we announced that Frost & Sullivan has awarded Ceapro the 2006 Product Innovation Award in recognition of CeaProve® as a pioneering point-of-care diagnostic product for type 2 diabetes and pre-diabetes. Frost & Sullivan is a global growth consulting company. Its expertise is identifying and developing opportunities and promoting these opportunities through innovative growth strategies and partnerships.

We expect the prestigious Frost & Sullivan award to establish a global profile for Ceapro. The associated coverage will be an opportunity to focus on CeaProve®, and provide a stage from which to present CeaProve® to healthcare providers. This award can open doors for Ceapro to fulfill its goal to enhance health internationally, specifically addressing the global diabetes epidemic

In Canada, we will shortly start marketing campaigns CeaProve®. The campaign (Know Your Numbers) promotes screening and awareness of the 'metabolic syndrome' and pre-diabetes in corporate environments. As part of a corporate wellness program, CeaProve® provides employers with a fast and effective way to ensure employees are in good health.

Our outlook continues to be positive. We are encouraged by continued strong second quarter sales and anticipate further revenue growth throughout 2006. We expect the expansion of sales to existing customers, and the introduction of new products to new customers to further increase sales of both active ingredients and veterinary therapeutic products. Ceapro expects to undertake further expansion of manufacturing capacity to meet this increased demand.

Mark J. Redmond, Ph.D.  
President and CEO  
May 11, 2006

The MD&A provides commentary on the results of operations for the periods ended March 31, 2006 and 2005, financial position as at March 31, 2006 and December 31, 2005 and the outlook of Ceapro Inc. ("Ceapro") based on information available as at May 11, 2006. The following information should be read in conjunction with the unaudited interim consolidated financial statements as at March 31, 2006, and related notes thereto, which are prepared in accordance with Canadian generally accepted accounting principles (Canadian GAAP) for interim statements, as well as the audited consolidated financial statements and Management Discussion and Analysis (MD&A) for the year ended December 31, 2005. All comparative percentages are between the periods ended March 31, 2006 and 2005 and all dollar amounts are expressed in Canadian currency, unless otherwise noted. Additional information about Ceapro can be found on SEDAR at [www.sedar.com](http://www.sedar.com).

## FORWARD-LOOKING STATEMENTS

This MD&A offers our assessment of Ceapro's future plans and operations as at May 11, 2006, and contains forward-looking statements. By their nature, forward-looking statements are subject to numerous risks and uncertainties, including those discussed below. You are cautioned that the assumptions used in the preparation of forward-looking information, although considered reasonable at the time of preparation, may prove to be imprecise and, as such, undue reliance should not be placed on forward-looking statements. Actual results, performance or achievements could differ materially from those expressed in, or implied by, these forward-looking statements. No assurance can be given that any of the events anticipated will transpire or occur, or if any of them do so, what benefits Ceapro will derive from them. We disclaim 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., and Ceapro Active Ingredients Inc., are incorporated under the Alberta Business Corporations Act. Ceapro is an innovation-driven biotechnology company. Our primary business activities relate to the development and commercialization of organic products for medical, cosmetic, and animal health industries using proprietary technology and natural, renewable resources.

Our products include:

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

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

- *CeaProve*<sup>®</sup>, a diabetes test meal to identify Type 2 diabetes and pre-diabetes, to determine dosage levels for diabetes oral therapy, and to monitor the condition of pre-diabetics. We are working towards a Canadian product listing to make *CeaProve*<sup>®</sup> available across Canada in 2006.
- A drug-delivery platform using our *beta glucan* technology to deliver compounds for uses ranging from wound care and therapy, to skin care treatments that reduce the signs of aging.
- An extension to the *active ingredients* offering, through new protein and new cereal grain extract products; and
- An extension to the existing veterinary products line, though new therapeutic products/formulations.

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

- Increasing sales and expanding markets for active ingredients;
- Developing and marketing additional high-value proprietary therapeutic products;
- Deploying *CeaProve*<sup>®</sup> and maximizing product utilization; and
- Advancing new technology to a partnering position.

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

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

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

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

## Risks and Uncertainties

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

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

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

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

Ceapro's share price is subject to equity market price risk, which may result in significant speculation and volatility of trading due to the uncertainty inherent in our business and the biotechnology industry. There is a risk that future issuance of common shares may result in material dilution of share value, which may lead to further decline in share price. The expectations of securities analysts and major investors about our financial

or scientific results, the timing of such results and future prospects, could also have a significant effect on the future trading price of Ceapro's shares.

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

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

## Disclosure Controls and Procedures

Disclosure controls and procedures have been designed to provide reasonable assurance that material information relating to the Company is accumulated and communicated to the Company's management as appropriate to allow timely decisions regarding required disclosure. The Company's Chief Executive Officer and Chief Financial Officer have concluded, based on their evaluation as at March 31, 2006, that the Company's disclosure controls and procedures are effective to provide reasonable assurance that material information related to the Company is made known to them by others within the Company. It should be noted that while the Company's Chief Executive Officer and Chief Financial Officer believe that the Company's disclosure controls and procedures provide a reasonable level of assurance that they are effective, they do not expect that the disclosure controls and procedures will prevent all errors or fraud. A control system, no matter how well conceived or operated, can only provide reasonable, not absolute, assurance that the objectives of the control system are met.

## Results of Operations – Three Months and Quarter Ended March 31, 2006, 2005, and 2004

### SELECTED INFORMATION

<i>\$000s except per share data</i>	<b>2006</b>	2005	2004
Total revenues	<b>899</b>	469	561
Income (loss) from operations	<b>19</b>	(112)	(8)
Net (loss) income	<b>(51)</b>	(156)	113
Basic (loss) income per share	<b>(0.00)</b>	(0.00)	0.00
Diluted (loss) income per share	<b>(0.00)</b>	(0.00)	0.00

The first three months and quarter of 2006 brought an increase in sales of \$510,000 or 131%. The sales of active ingredients increased by \$274,000 or 88%. In addition there was a \$236,000 increase in veterinary therapeutics product sales due to a large order that usually occurs in the second quarter happening in the first quarter.

There was a net loss in the first quarter of \$51,000, due to increased patent expenses of \$33,000, an increase in general and administration of \$33,000, and an increase in sales and marketing expenses of \$18,000; these were offset by an increase in gross margin of \$297,000. Income from operations increased \$131,000 to \$19,000 in the first quarter.

## Revenue

<i>\$000s</i>	<b>2006</b>	2005	Change
Product sales			
Active ingredients	<b>587</b>	313	88%
Veterinary therapeutic products	<b>312</b>	76	311%
	<b>899</b>	389	131%
Royalties, licences, and product development fees	-	80	(100%)
Total revenues	<b>899</b>	469	92%

## PRODUCT SALES

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

Veterinary therapeutic product sales increase by 311% due to the large second quarter order being shipped earlier in 2006 than 2005. Thus we are not expecting a large order in the second quarter of 2006.

## ROYALTIES, LICENCES, AND PRODUCT DEVELOPMENT FEES

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

## Expenses

### COST OF GOODS SOLD AND GROSS MARGINS

<i>\$000s</i>	<b>2006</b>	2005	Change
Sales	<b>899</b>	389	
Cost of products sold	<b>437</b>	224	
Gross margin	<b>462</b>	165	180%
Gross margin %	<b>51%</b>	42%	

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

For the first quarter of 2006, the gross margin percentage improved to 51% from 42%, as a result of the increase in product sales; fixed production labour costs were absorbed over the higher product sales. The higher margin also reflects the increase in efficiencies from the new equipment installed in the prior year that is realized with higher production volumes.

## GENERAL AND ADMINISTRATION

<i>\$000s</i>	<b>2006</b>	2005	Change
Salaries and benefits	<b>88</b>	69	
Board of Directors compensation	<b>23</b>	13	
Investor relations	<b>19</b>	25	
Insurance	<b>29</b>	27	
Legal	<b>3</b>	17	
Consulting	<b>16</b>	8	
Other	<b>58</b>	44	
<b>Total general and administration expenses</b>	<b>236</b>	203	16%

General and administration expense (G&A) for the first quarter of 2006 increased \$33,000 or 16% primarily due to an increase in salaries and benefits of \$19,000 of which \$4,400 relates to stock option benefits, a vacancy from 2005 that has been filled, and a temporary staffing that did not occur in the previous period. An increase in consulting of \$8,000 was due the new consultants assisting with the pursuit of new growth opportunities. The Board of Directors compensation increased by \$10,000 was due to the increased number of meetings held in the first quarter of 2006. To date the Directors have reinvested their compensation received by exercising stock options and participating in private placements in Ceapro.

## SALES AND MARKETING

<i>\$000s</i>	<b>2006</b>	2005	Change
Salaries and benefits	<b>49</b>	43	
Other	<b>21</b>	9	
<b>Total sales and marketing</b>	<b>70</b>	52	35%

Sales and marketing expenses increased by 35% largely due to having samples of veterinary therapeutic products produced to use as promotional materials. There was also an increase in travel as our focus on expanding sales continues.

## ROYALTIES

<i>\$000s</i>	<b>2006</b>	2005	Change
Royalty interest units	<b>95</b>	39	
AVAC royalty	<b>5</b>	13	
<b>Total royalties expenses</b>	<b>100</b>	52	92%
Recognition of deferred royalty revenue	<b>(10)</b>	-	
<b>Net royalty expense</b>	<b>90</b>	52	73%

As at March 31, 2006, royalty investors receive royalties equal to 10.6% (2005 – 8.31%) of revenues from product sales and royalty, license, and product development fees of active ingredients and veterinary therapeutic products, to a maximum of two times the amount invested. AVAC Ltd. receives royalties of up to 2.5% to 5% of revenues from eligible product sales, to a maximum of two times the amount invested. Royalty expense throughout 2006 will vary directly with fluctuations in product sales, royalty, license, and product development fees, product sales mix, and any new royalty interest offerings or AVAC investments that may be completed. The deferred royalty revenues from the offering that closed December 28, 2005 are matched to the associated royalties at 50% of the royalty expense in each quarter. March 31, 2006 marks AVAC fully earning the original product development investment that was received in 1999.

## INTEREST & AMORTIZATION

<i>\$000s</i>	2006	2005	Change
Interest on callable debt and other	2	4	
Interest on long-term debt	10	7	
<b>Total interest expense</b>	<b>12</b>	<b>11</b>	<b>9%</b>
Amortization	36	39	(8%)

## Other Income (Expenses)

### RESEARCH AND PRODUCT DEVELOPMENT

<i>\$000s</i>	2006	2005	Change
Salaries and benefits	30	25	
Regulatory and patent	34	1	
Other	7	3	
	<b>71</b>	<b>29</b>	<b>145%</b>
Product development - <i>CeaProve</i> ®	79	90	
Research and product development expenditures	150	119	26%
AVAC investment ( <i>CeaProve</i> ®)	(79)	(75)	
<b>Net research and product development expenses</b>	<b>71</b>	<b>44</b>	<b>61%</b>

Research and product development expenses increased 26% primarily due to an increase in patent filing costs of \$33,000, versus 2004, relating to active ingredients. Our expectations are that patent expenses should be comparable to 2005 on an annual basis. In 2006 and 2005 Ceapro received funds under a product pre-commercialization investment agreement that was offset against *CeaProve*® product development charges.

### OTHER INCOME (EXPENSES)

Other income (expenses) was comprised of \$1,000 in foreign exchange gains during the period ended March 31, 2006.

### QUARTERLY INFORMATION

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

	2006	2005				2004		
<i>\$000s except per share data</i>	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Total revenues	899	608	654	1,032	469	469	414	975
Net (loss) income	(51)	123	(125)	101	(156)	(78)	(361)	(71)
Basic (loss) income per share	(0.00)	0.00	(0.00)	0.00	(0.00)	(0.00)	(0.01)	(0.00)
Diluted (loss) income per share	(0.00)	0.00	(0.00)	0.00	(0.00)	(0.00)	(0.01)	(0.00)

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

## Liquidity and Capital Resources

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

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

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

Total common shares issued and outstanding as at May 11, 2006 were 37,098,670 (2005 – 36,355,950). In addition, 3,264,295 stock options (2005 – 3,548,115) and 774,066 warrants (2005 – 682,666) were outstanding that are potentially convertible into an equal number of common shares at various prices. Shareholders' equity decreased to \$285,232 at March 31, 2006 from \$461,337 at December 31, 2005.

Ceapro's working capital position was \$984,000 at March 31, 2006, a decrease of \$19,000 from December 31, 2005. Ceapro continues to pursue additional financings to fund ongoing working capital requirements, and to secure the financial resources required to support the expected increases in sales of existing products, the introduction of new products to existing and new markets, and the development of new technology.

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

### FINANCINGS AND MILESTONES

During the three month period ended March 31, 2006, investors agreed to purchase additional interests in the net proceeds, if any, from the SGGF claim. At March 31, 2006, investors are entitled to 62.5% of the net proceeds, if any, from the SGGF claim, to a maximum \$15,614,780.

### Related Party Transactions

During the first quarter of 2006, \$29,761 royalties were earned by employees and Directors from their investment in previous Ceapro royalty offerings. Directors and employees invested \$85,000 in the sale of lawsuit interests during the quarter. At March 31, 2006, \$43,097 of royalties were payable to employees and Directors. Included in accounts receivable at March 31, 2006 is \$135,000 due from a Director and an employee for lawsuit financing. Prepaid expenses included \$3,384 of Director fees paid for the term ending May 31, 2006. These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

### Legal Proceedings

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

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

In 2003 Ceapro issued a bond relating to legal costs up to \$305,000, which was secured by personal guarantees of the Board of Directors and the Chief Executive Officer. By December 31, 2004, document production had occurred and Examinations for Discovery of the Defendants had been concluded. The examination of Ceapro's Chief Executive Officer commenced in October 2004, continued through 2005, and into 2006 for 36 days to date. The examination of Ceapro's Chief Executive Officer will conclude June 7, 2006. The legal process will continue through the summer of 2006, moving to the pre-trial conference to be held in the last two weeks of November where mandatory judicial mediation will occur.

As of May 11, 2006, it is the opinion of Ceapro's Corporate Counsel that, based on the document production to date and examinations for discovery that has transpired to date, the most likely outcome of this action is that Ceapro will be successful. At this stage of the litigation, it is premature to quantify the damages that may be awarded at the discretion of the Court and therefore, no amount has been accrued in the financial statements with respect to this claim.

## Outlook

The initiatives undertaken during past few years have resulted in an increase in product sales making the first quarter 2006 our best start to a year in Ceapro's history. We are encouraged with second quarter orders and look forward to growing sales throughout 2006. While Ceapro incurred a loss in the first quarter of \$51,000, it did generate income from operations of \$19,000, and positive net cash flow. The expansion of sales to existing customers, and the introduction of new products to new customers have boosted sales of active ingredients. Ceapro's export sales have continued to increase despite the continued strengthening of the Canadian dollar over the last few years.

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

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

Ceapro will continue to pursue additional financings to fund ongoing working capital requirements and to secure the financial resources required to support the expected increases in the volume of sales of existing products, the introduction of new products to existing and new markets, and the further development of new technology.

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

## Additional Information

Additional information relating to Ceapro Inc., including a copy of our Annual Report and Proxy Circular, can be found on SEDAR at [www.sedar.com](http://www.sedar.com).

**Unaudited Consolidated Financial Statements for the  
First Quarter Ended March 31, 2006**

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**Ceapro Inc.**

**CEAPRO INC.**  
**Consolidated Balance Sheets**

	March 31 2006 (Unaudited)	December 31 2005 (Audited)
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash	\$ 758,256	\$ 438,045
Accounts receivable	872,211	982,347
Inventories	183,578	228,158
Prepaid expenses and deposits	65,653	90,761
	<b>1,879,698</b>	1,739,311
<b>PROPERTY AND EQUIPMENT (NET OF ACCUMULATED AMORTIZATION)</b>	<b>654,340</b>	679,623
	<b>\$ 2,534,038</b>	<b>\$ 2,418,934</b>
<b>LIABILITIES</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued liabilities	\$ 472,750	\$ 284,863
Deferred revenue	114,644	229,676
Callable debt	70,590	81,584
Current portion of long-term debt	31,293	33,519
Current portion of royalties payable	206,335	106,508
	<b>895,612</b>	736,150
DEFERRED ROYALTY REVENUE	446,727	457,000
EMPLOYEE FUTURE BENEFITS OBLIGATION	172,846	159,946
LONG-TERM DEBT	430,851	436,731
ROYALTIES PAYABLE	167,770	167,770
	<b>2,113,806</b>	1,957,597
<b>SHAREHOLDERS' EQUITY</b>		
SHARE CAPITAL	2,421,524	2,414,830
CONTRIBUTED SURPLUS	110,375	106,888
DEFICIT	(2,111,667)	(2,060,381)
	<b>420,232</b>	461,337
	<b>\$ 2,534,038</b>	<b>\$ 2,418,934</b>

*See accompanying notes*

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

Unaudited

**Three Months and Quarter Ended March 31**  
**2006** **2005**

<b>Revenue</b>			
Sales	\$	899,199	\$ 388,528
Cost of goods sold		437,113	224,303
Gross margin		462,086	164,225
Royalties, licenses, and product development fees		-	80,000
		462,086	244,225
<b>Expenses</b>			
General and administration		235,741	202,590
Royalties		89,553	51,922
Sales and marketing		70,216	51,675
Amortization		35,732	38,895
Interest on long-term debt		10,379	7,357
Interest on callable debt and other		1,532	3,806
		443,153	356,245
Income (loss) from operations		18,933	(112,020)
<b>Other income (expenses)</b>			
Research and product development		(71,356)	(44,202)
Other income (expenses)		1,137	(242)
		(70,219)	(44,444)
<b>NET (LOSS) INCOME FOR THE PERIOD</b>		<b>(51,286)</b>	<b>(156,464)</b>
Deficit, beginning of period		(2,060,381)	(1,605,637)
Deficit, end of period	\$	(2,111,667)	\$ (1,762,101)
Net (loss) income per share:			
Basic	\$	(0.00)	\$ (0.00)
Diluted	\$	(0.00)	\$ (0.00)

*See accompanying notes*

**CEAPRO INC.**  
**Consolidated Statements of Cash Flows**  
Unaudited

**Three Months and Quarter Ended March 31**  
**2006** **2005**

	<b>2006</b>	<b>2005</b>
<b>Operating Activities</b>		
Net (loss) income for the period	\$ (51,286)	\$ (156,464)
Items not affecting cash		
Amortization	35,732	38,895
Employee future benefits obligation	12,900	3,000
Recognition of deferred royalty revenue	(10,273)	-
Stock based compensation	4,556	1,226
	<b>(8,371)</b>	<b>(113,343)</b>
<b>Changes in Non-Cash Working Capital Items</b>		
Accounts receivable	110,136	(167,453)
Inventories	44,580	32,272
Prepaid expenses and deposits	25,108	5,129
Accounts payable and accrued liabilities	187,887	123,351
Deferred revenue	(115,032)	(80,000)
	<b>244,308</b>	<b>(200,044)</b>
<b>Investing Activities</b>		
Purchase of property and equipment	(10,449)	(48,321)
Restricted cash for the purchase of property and equipment	-	38,628
	<b>(10,449)</b>	<b>(9,693)</b>
<b>Financing Activities</b>		
Repayment of long-term debt	(8,106)	(4,965)
Repayment of callable debt	(10,994)	(9,790)
Proceeds from issuance of share capital	-	204,800
Proceeds from exercise of options	5,625	9,500
Increase (decrease) in royalties payable	99,827	51,921
	<b>86,352</b>	<b>251,466</b>
Increase (decrease) in cash	<b>320,211</b>	<b>41,729</b>
Cash at beginning of period	<b>438,045</b>	<b>96,266</b>
<b>Cash at end of period</b>	<b>\$ 758,256</b>	<b>\$ 137,995</b>
Supplementary information:		
Interest paid	\$ 11,911	\$ 12,659
Royalties paid	\$ -	\$ -

See accompanying notes

## 1. Accounting Principles for Interim Financial Statements

The accompanying unaudited interim consolidated financial statements have been prepared by the Company in accordance with Canadian generally accepted accounting principles ("Canadian GAAP") for interim financial statements. The accounting principles and methods of computation adopted in these financial statements are the same as those of the audited financial statements for the year ended December 31, 2005. Comparative figures for prior periods have been reclassified to conform to the current presentation.

Omitted from these statements are certain information and note disclosures normally included in the annual financial statements prepared in accordance with Canadian GAAP. The financial statements and notes presented should be read in conjunction with the audited financial statements for the year ended December 31, 2005.

## 2. Share Capital

### (a) Authorized

Unlimited number of Class A voting common shares

Unlimited number of Class B non-voting common shares

### (b) Issued

Class A common shares

	<b>Number of Shares</b>	<b>Amount</b>
Balance, December 31, 2005	37,076,170	\$ 2,414,830
Changes during the period:		
Exercise of options	22,500	5,625
Equity component of stock-based compensation, net	-	1,069
Balance, March 31, 2006	37,098,670	\$ 2,421,524

(c) Stock options outstanding are as follows:

	<b>Year of Expiration</b>	<b>Exercise Price</b>	<b>Number of Options Outstanding</b>	
			<b>March 31 2006</b>	<b>December 31 2005</b>
	2010	\$0.28	<b>250,000</b>	250,000
	2008	\$0.25	<b>1,873,292</b>	1,895,792
	2007	\$0.17	<b>809,003</b>	809,003
	2006	\$0.20	<b>332,000</b>	332,000
			<b>3,264,295</b>	3,286,795

(d) Warrants

	<b>March 31 2006</b>	December 31 2005
Issued and outstanding, beginning of period	<b>774,066</b>	-
Issued	-	774,066
Issued and outstanding, end of period	<b>774,066</b>	774,066

<b>Exercise price</b>	<b>Number Outstanding</b>	<b>Expiry Date</b>
\$0.60	682,666	September 30, 2006
\$0.55 *	91,400	December 28, 2007
	<b>774,066</b>	

\* Warrants are exercisable at \$0.55 until June 28, 2006 and thereafter at \$0.75 until expiry

**3. Employee Future Benefits Obligation**

	<b>Three Months Ended March 31</b>	
	<b>2006</b>	2005
Unfunded balance, beginning of period	\$ 159,946	\$ 76,586
Current service cost	7,611	2,000
Interest costs on accrued obligation	5,289	1,000
Unfunded balance, end of period	\$ 172,846	\$ 79,586

**4. Related Party Transactions**

	<b>Three Months Ended March 31</b>	
	<b>2006</b>	2005
Royalties earned by employees and Directors	<b>\$ 29,761</b>	\$ 10,259
Amounts payable to employees and Directors included in accounts payable and accrued liabilities	<b>392</b>	45
Amounts payable to employees and Directors included in royalties payable	<b>43,097</b>	20,534
Amounts receivable from employees and Directors included in accounts receivable	<b>135,000</b>	262,258
Prepaid expense relating to Director fees	<b>3,384</b>	-
Sale of lawsuit interests to employee and a Director	<b>85,000</b>	55,780

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

## 5. Other Income (Expenses)

Other income (expenses) is comprised as follows:

	Three Months Ended March 31	
	2006	2005
Sale of lawsuit interests (net of the lawsuit expense)	\$ 237	\$ -
Foreign exchange gains (losses) and other	900	(242)
	<b>\$ 1,137</b>	<b>\$ (242)</b>

## 6. Segmented Information

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

	Three Months Ended March 31	
	2006	2005
Americas	\$ 450,374	\$ 259,035
Other	448,825	129,493
	<b>\$ 899,199</b>	<b>\$ 388,528</b>

# Information For Investors

## Directors

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

## Officers

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

Shawn McMillan, CA  
Chief Financial Officer and Corporate Secretary

David Fielder, M. Sc.  
Vice President Scientific Affairs

## Head Office

1008 RTF University of Alberta  
8308 - 114 Street  
Edmonton, AB T6G 2E1  
Canada

Telephone: 1.780.421.4555  
Fax: 1.780.421.1320  
Website: [www.ceapro.com](http://www.ceapro.com)  
Email: [info@ceapro.com](mailto:info@ceapro.com)

## Registered Office

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

## Auditors

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

## Corporate Counsel

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

## Securities Counsel

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

## Chartered Bank

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

## Stock Information

Listed on the TSX Venture Stock Exchange  
Symbol: CZO

## Transfer Agent & Registrar

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

Telephone: 1.780.496.9713  
Fax: 1.780.408.3382

## Change of Address

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

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

## Financial Calendar

The Company's year-end is December 31.

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

## Equal Opportunity Employer

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



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