



First Quarterly Report  
Ending August 31, 2001

## Management's Discussion and Analysis

The Management's Discussion and Analysis is intended to assist in the understanding and assessment of the trends and significant changes in the results of operations and financial condition of Neptune Technologies & Bioresources (the "Company"). Historical results may not indicate future performance. This review should be read in conjunction with the Company's financial statements and accompanying notes.

The Company has a limited operating history on which to base an evaluation of its business and prospects. Its prospects must be considered in light of the risks and uncertainties involved in any new emerging market. Such risks include an evolving and unpredictable business and management of potentially high growth. To address these risks, the Company must, among other things: i) continue to develop and improve its technology and its extraction processes; ii) pursue the validation of the benefits of its products in the nutraceutical, cosmetics and pharmaceutical fields; iii) implement and execute its business strategy; iv) meet competition; and v) attract, retain and motivate qualified personnel. There can be no assurance that the Company will be successful in addressing such risks.

## The Company

Neptune Technologies & Bioresources was founded in 1998 to develop, market and exploit innovative high-yield technological processes in the production of value-added natural products and components from underexploited marine biomasses, such as krill, seal, fish residues and other marine biomasses. These extracts, mainly from krill, are a major source of polyunsaturated fatty acids, phospholipids, antioxidants and other essential bioactive ingredients highly recommended in the improvement of human health and disease prevention. Through applied research, clinical studies, strategic alliances and partners, the Company intends to demonstrate the added-value of its products in various applications in the fields of nutraceuticals, cosmetics and pharmaceuticals and to pursue its strategic progress in order to position itself as a leader in the new field of nutrigenomics.

## Review of the first quarter ended August 31, 2001

During this first quarter, the Company put in place the administrative and financial structure required for the implementation of its business plan. The Company thus hired management and other key personnel.

In addition, in July 2001, the Company completed its initial public offering ("IPO") and listed its common shares on the Canadian Venture Exchange Inc. ("CDNX") under the symbol NTB. The Company thus proceeded with the closing of its IPO and issued five million units at a price of \$1.00 per unit, each unit comprising one common share and one half Series "C" warrant. Each series "C" warrant entitles the holder to subscribe to one common share of the Company for \$1.50 per share, at any time until June 28, 2002. This

placement generated net proceeds of \$4,151,901 after deduction of brokerage fees of \$400,000 and issue expenses of \$448,099.

## Operating results

During the quarters ended August 31, 2001 and 2000, the Company recorded net losses of \$502,744 (\$0.39 per share) and \$116,192 (\$0.012 per share) respectively.

The Company did not record any revenue during the quarters ended August 31, 2001 and 2000. This is explained by the fact that the Company, in collaboration with research institutes including Sherbrooke University and the Quebec Industrial Research Centre (CRIQ), has been working on the development of its extraction processes for the production of value-added products from seal and fish residues and on the industrialization of its process related to krill.

During the first quarter ended August 31, 2001, operating expenses totalled \$523,587 while they amounted to \$132,970 for the quarter ended August 31, 2000. This increase is mainly attributable to higher administrative expenses and those related to investor relations.

Administrative expenses for the quarter ended August 31, 2001 rose by \$272,781 to \$309,343. Salary and benefits expenses as well as professional fees represented \$114,570 and \$97,096 for the quarter ended August 31, 2001 and they respectively represented 37% and 31% of total administrative expenses for the same period.

Research and development expenses before tax credits of \$60,404 totalled \$188,060 for the quarter ended August 31, 2001 compared to \$88,397 for the quarter ended August 31, 2000. Salary expenses in the amount of \$69,823 and subcontracting costs of \$101,981 mainly incurred for the development of our process for extracting oil from marine biomasses contributed to more than 91% of our total research expenses for the quarter ended August 31, 2001.

## Balance sheets

The company held assets totalling \$4,820,413 as at August 31, 2001 compared to \$1,320,224 as at May 31, 2001.

On July 11, following the conclusion of its IPO in the amount of \$5 million, the Company showed working capital of \$3,611,466 as at August 31, 2001 consisting mainly of cash totalling \$3,839,085 compared to \$158,136 as at May 31, 2001.

Accounts payable, which were \$981,502 as at May 31, 2001, totalled \$485,427 as at August 31, 2001. This drop is explained mainly by the fact that accounts payable were paid using some of the proceeds of our July 2001 issue of shares.

The Company also proceeded with the financing of its research tax credits through a bank loan in the amount of \$437,000 in June 2001.

## Investment and financing activities

During its first quarter ended August 31, 2001, the Company completed its IPO and began on July 11, 2001 trading its shares on Canadian Venture Exchange inc. (CDNX) under the ticker symbol NTB.

This IPO consisted in the issue of five million units at a price of \$1.00 per unit. Each unit consisted in one common share and one half Series "C" warrant. Each warrant allows its holder to acquire one additional share at a price of \$1.50 prior to June 28, 2002.

This initial public offering generated net proceeds of \$4,151,901, after deduction of brokerage fees in the amount of \$400,000 and issue expenses of \$448,099. During its first quarter, the Company began to file for patent protection, an activity that required an expenditure of \$86,518.

## Competition

Our main challenges in fiscal 2002 and 2003 will be to industrialize our krill oil extraction process, market the product and generate operating cash flow, while continuing to fund the advancement of our research projects on the nutraceutical, cosmetics and pharmaceutical applications of our products and their components, as we move forward towards the field of nutrigenomics.

The nutraceutical, cosmetics and pharmaceutical industries are highly competitive. Numerous companies conduct similar activities as the Company, including the research and development of applications intended for human health. More specifically, competitors developing new nutraceutical products are focusing on cosmetics and pharmaceutical applications based on the specific properties of their products. A good number of these companies have greater financial resources, research and development capabilities, manufacturing facilities and marketing capabilities than the Company. Moreover, teaching institutions, government agencies and other research bodies are conducting research in the same sectors as the Company. They are also capable of marketing products, either by their own means or through collaboration agreements.

The Company expects to face stiff competition with respect to the nutraceutical products it intends to develop. In addition, certain biomedical and biotechnology companies, including large pharmaceutical companies, have announced that they are working in the field of nutraceutical-based therapies. The Company is aware that other companies or institutions are developing new nutraceutical-based therapies that are directly targeting the applications for which the Company is developing its own nutraceutical products.

According to its review of the industry, the Company is unaware of any other company using a krill oil extraction process. However, an emerging Quebec company is focused on producing lyophilised krill in powder and capsule form as a food supplement. The Company expects that its technological platform for the exploitation of krill will attract the attention of other significant competitors over the years.

# Neptune Technologies & Bioresources inc.

(A development-stage company)

## Interim earnings

(unaudited)

	Three months ended august 31		Cumulative from October 9, 1998 to August 31, 2001
	2001	2000	2001
	\$	\$	\$
Operating expenses			
Research (note 3)	127,656	88,397	1,049,767
Marketing	17,553	8,011	35,744
Administration (note 4)	309,343	36,562	863,860
Financial communications	61,607		90,597
Depreciation of fixed assets	7,428		16,298
Loss before interest income	523,587	132,970	2,056,266
Interest income	20,843	16,778	67,095
<b>Net loss</b>	<b>502,744</b>	<b>116,192</b>	<b>1,989,171</b>
Net loss per share	0.039	0.012	
Weighted average number of shares outstanding	12,871,739	10,100,000	

## Interim deficit

(unaudited)

	August 31, 2001	August 31, 2000
	\$	\$
Balance, beginning of year	1,662,427	486,018
Net loss	502,744	116,192
Share issue expenses	848,099	
Balance, end of year	3,013,270	602,210

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## Interim Cash Flows

(unaudited)

	Three months ended august 31		Cumulative from October 9, 1998 to August 31, 2001
	2001	2000	
	\$	\$	\$
<b>OPERATING ACTIVITIES</b>			
Net loss	(502,744)	(116,192)	(1,989,171)
Non-cash items			
Depreciation of fixed assets	7,428		16,298
Changes in working capital items	(603,956)	1,424	(224,891)
Cash flows from operating activities	(1,099,272)	(114,768)	(2,197,764)
<b>INVESTING ACTIVITIES</b>			
Fixed assets	(6,004)		(141,897)
Patents	(86,518)		(151,719)
Cash flows from investing activities	(92,522)	–	(293,616)
<b>FINANCING ACTIVITIES</b>			
Bank loan	437,000		437,000
Due to a company controlled by an officer and director			116,510
Issue of capital stock	5,000,000		6,700,054
Issue expenses	(848,099)		(923,099)
Deferred charges	283,842		
Cash flows from financing activities	4,872,743		6,330,465
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>3,680,949</b>	<b>(114,768)</b>	<b>3,839,085</b>
Cash and cash equivalents, beginning of period	158,136	1,523,364	
Cash and cash equivalents, end of period	3,839,085	1,408,596	3,839,085

# Neptune Technologies & Bioresources inc.

(A development-stage company)

## Interim Balance Sheets

	Unaudited August 31, 2001	Audited May 31, 2001
	\$	\$
<b>ASSETS</b>		
Current assets		
Cash	839,085	158,136
Short-term investments	3,000,000	
Accounts receivable	91,390	113,596
Research tax credits receivable	575,018	559,269
Prepaid expenses	37,602	13,157
	4,543,095	844,158
Fixed assets	125,599	127,023
Patents	151,719	65,201
Deferred charges		283,842
	4,820,413	1,320,224
<b>LIABILITIES</b>		
Current liabilities		
Bank loan	437,000	
Accounts payable and accrued liabilities		
Company controlled by an officer and director	9,202	99,095
Others	485,427	981,502
	931,629	1,080,597
<b>SHAREHOLDERS' EQUITY</b>		
Capital stock and warrants (note 5)	6,902,054	1,902,054
Deficit	(3,013,270)	(1,662,427)
	3,888,784	239,627
	4,820,413	1,320,224

# Neptune Technologies & Bioresources inc.

(A development-stage company)

## Notes to Interim Financial Statements

August 31, 2001 (unaudited)

### **1 - INTERIM FINANCIAL INFORMATION**

These interim consolidated financial statements are prepared in accordance with generally accepted accounting principles in Canada and use the same accounting policies and methods in the preparation of the company's most recent annual consolidated financial statements. All disclosures required for annual financial statements. These interim consolidated financial statements should be read in conjunction with the company's financial statements have not been included in these most recent annual consolidated financial statements.

### **2 - RELATED PARTY TRANSACTIONS**

The Company has signed a service agreement with a shareholder (company controlled by an officer and director) which is renewable annually. Under the terms of this agreement, the Company pays monthly service fees of \$10,000 (\$10,000 in 2000). A monthly amount of \$2,000 has been deducted for the use of the Company's premises by this shareholder. This shareholder also charges back costs incurred for the Company. During the period, the total lump sum consideration and costs invoiced represent \$24,868 (\$30,000 in 2000), from this amount \$8,368 was paid to third parties. The \$24,868 costs include \$15,738 in expenses and management fees, \$15,130 in expenses and research fees and we deducted from the the total amount \$6,000 as a rent reduction for the use of our premises by this shareholder. As at August 31, 2001, the balance due to this shareholder is \$9,202 (\$24,095 at May 31, 2001), including taxes. The amount is shown on the balance sheets under accounts payable and accrued liabilities.

Moreover, a service agreement effective October 1, 1999 and for a term of 40 weeks ending July 6, 2000 had been signed with another shareholder (another company controlled by an officer and director). Under this agreement the Company was entitled to receive lump sum fees of \$650 per week, for a total of \$26,000, and 10% of the added value to the Company resulting from the conclusion of strategic alliances or any financing identified and negotiated by this company for the benefit of the Company. As at May 31, 2000, in exchange for financing and services obtained under the service agreement, the Company has issued \$101,000 in shares and has recognized a debt of \$75,000 as at May 31, 2001. This amount was shown on the balance sheets under accounts payable and accrued liabilities. The service agreement is no longer in effect.

The Company has also entered into an agreement calling for payments, as of June 1, 2002, in semi-annual instalments, of 1% of net annual sales, for an unlimited period, as royalties, to a maximum of net earnings before taxes, interest and depreciation.

These transactions occurred in the normal course of operations and are measured at the exchange amount, which is the amount of consideration determined and accepted by the parties involved.

# Neptune Technologies & Bioresources inc.

(A development-stage company)

## Notes to Interim Financial Statements

August 31, 2001 (unaudited)

### 3 - INFORMATION REGARDING RESEARCH PROJECTS IN PROGRESS

The Company has a worldwide license for an extraction process allowing it to obtain oil from krill and other crustaceans in order to extract concentrates and ingredients with various beneficial biological properties. The Company entered into a research agreement with a Canadian university to adapt the extraction process for use with seals. This university also granted a licensing option to the Company on the results of the research agreement applicable to the seal and other marine mammals.

Moreover the company is pursuing applied medical researches. The company is pursuing research on medical applications for these 5 clinical trials : cardiovascular diseases, neoplastic diseases, rheumatoid arthritis, facial wrinkles and transdermal absorption.

Costs incurred for research projects in progress are detailed as follows:

	Three months ended		Cumulative
	2001	august 31 2000	from October 9, 1998 to August 31, 2001
	\$	\$	\$
Service fees	15,000	15,000	175,000
Salaries and employee benefits	69,823	32,309	375,772
Subcontracting	101,981	36,048	1,090,353
General and study expenses	260		30,612
Travel and entertainment expenses	996	5,040	41,515
	188,060	88,397	1,713,252
Research tax credits	(60,404)		(663,485)
Research expenses	127,656	88,397	1,049,767

Research tax credits recorded by the Company must be reviewed and approved by the tax authorities; accordingly, amounts granted may differ from amounts recorded.

# Neptune Technologies & Bioresources inc.

(A development-stage company)

## Notes to Interim Financial Statements

August 31, 2001 (unaudited)

### 4 - INFORMATION REGARDING ADMINISTRATION COST

	Three months ended		Cumulative
	2001	august 31 2000	from October 9, 1998 to August 31, 2001
	\$	\$	\$
Royalties			2,500
Salaries and fringe benefits	114,570	160	363,101
Board of committee	17,500		17,500
Travelling and entertainment	17,806	612	46,253
Rent	19,363		53,521
Maintenance and repairs	4,331	549	12,141
Insurance	3,978		9,458
Communication	3,628	428	11,562
Taxes and license	4,759		18,242
Office supplies	5,843	1,663	25,392
Professional fees	97,096	18,060	223,403
Management fees	15,000	15,000	75,000
Financial expenses	5,469	90	5,787
	309,343	36,562	863,860

### 5 - CAPITAL STOCK AND WARRANTS

On July 5, 2001, the Company concluded its initial public offering for the issuance of 5,000,000 units for \$1 per unit composed of one common share and one-half of a series "C" warrant. The net proceeds of this investment are estimated to be \$4,151,901, net of the underwriter's remuneration of \$400,000 and issue expenses of \$448,099.

	August 31, 2001	May 31, 2001
	\$	\$
<b>Issued and fully paid</b>		
15,100,000 (2001-05-31 : 10,100,000) common shares	6,898,050	1,898,050
4,050,000 Series "A" warrants	4,003	4,003
1,000,000 Series "B" warrants	1	1
2,500,000 (2001-05-31 : 0) Series "C" warrants		
	4,004	4,004
	6,902,054	1,902,054