



Second Quarter Report
Ending November 30, 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 October 1998 to develop, market and exploit innovative high-yield technological processes in the production of value-added natural products and components from under-exploited marine biomasses such as krill, seal, fish residue and other marine biomasses. These extracts, especially those from krill, are rich in polyunsaturated fatty acids, phospholipids, antioxidants and other essential and highly desirable bioactive ingredients that contribute to improving human wellness and disease management. Through applied research and clinical studies, strategic alliances and partnerships, the Company intends to demonstrate the high value of its products in various nutraceutical, cosmetic and pharmaceutical applications, and position itself as a leading player in the new field of nutrigenomics.

Review of the 1st six-month period ended November 30, 2001

During the first six-month period, the Company continued to put in place the administrative and financial structure required for the implementation of its business plan and proceeded with the preliminary stages of the industrialization of its extraction process to produce its krill oil "Neptune Krill Oil™" and its protein concentrate "Neptune Aquateine™". Accordingly, the Company has on the one hand hired management and other key personnel and on the other hand elaborated and scheduled its industrialization.

In addition, in July 2001, the Company completed its initial public offering ("IPO") and listed its common shares on the Canadian Venture Exchange ("CDNX") under the ticker symbol NTB. The Company thus proceeded on July 5th with the closing of its IPO and issued

five million units at \$1.00 per unit, each unit composed of 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 at \$1.50 per share, at any time until June 28, 2002. This investment generated net proceeds of \$4,151,901 net of the underwriter's remuneration of \$400,000 and issue expenses of \$448,099.

Operating results

During the first six-month periods ended November 30, 2001 and 2000, the Company did not record any operating results and presented net losses per share of \$0.078 and \$0.0292 respectively. Results for the last six months are explained by the fact that the Company, in collaboration with research institutes among which University of Sherbrooke and the Quebec Industrial Research Centre (CRIQ), speed up the development of its extraction processes for the production of value-added products from seal and fish residue and is actively working on the industrialization of its process related to krill.

Comparison analysis of operating results for the six-month periods ended November 30, 2001 and 2000 respectively.

The Company recorded net losses of \$598,445 (\$0.040 per share) during the second quarter ended November 30, 2001 compared to net losses of \$312,236 (\$0.031 per share) during the quarter ended November 30, 2000 the previous year.

During the quarter ended November 30, 2001, operating expenses increased by \$308,117 compared to operating expenses totalling \$327,448 for the same quarter the previous fiscal year and thus amount to \$635,565. This increase is mainly attributable to higher administrative expenses and those related to investor relations.

Administrative expenses amounted to \$289,945 during the second quarter ended November 30, 2001 compared to \$53,588 during the same quarter the previous fiscal year. This increase is mainly attributable to increased salary expenses from the hiring of new management employees as anticipated in the Company's business plan.

Research and development expenses for the quarter ended November 30, 2001 totalled \$306,515 before tax credits of \$110,249 compared to \$263,455 for the quarter ended November 30, 2000. These sums reflect the commitment of the Company to maintain its efforts in the matter of scientific development.

Comparison analysis of the six-month periods ended November 30, 2001 and 2000 respectively.

During the first six-month period ended November 30, 2001, operating expenses amounted to \$1,159,152 while they represented \$460,418 for the six-month period ended November 30, 2000. This increase is mainly attributable to increased administrative expenses and those related to investors relations and in accordance with the Company's business plan.

Administrative expenses for the six-month period ended November 30, 2001 increased by \$509,138 to reach \$599,288. On the one hand, salaries and benefits and on the other hand, professional fees respectively represent \$248,325 and \$174,299 of total administrative expenses for the six-month period ended November 30, 2001, i.e. 41% and 29% respectively of total administrative expenses for this half-year period. Increase in professional fees is explained mainly by fees related to the Company's initial public offering.

Research expenses totalled \$494,575 before tax credits of \$170,653 for the six-month period ended November 30, 2001 compared to \$351,852 for the six-month period ended November 30, 2000. Salaries in the amount of \$144,728 and sub-contracting fees of \$317,062 related mainly to the development of our oil extraction process from marine biomasses, represent more than 93% of research expenses for the six-month period ended November 30, 2001.

Balance sheets

The Company held assets totalling \$4,342,083 as at November 30, 2001 compared to \$1,320,224 as at May 31, 2001.

On November 30, 2001, the Company showed working capital of \$2,992,197 consisting mainly of cash totalling \$3,030,301 compared to \$18,136 as at May 31, 2001.

Accounts payable which stood at \$1,080,597 as at May 31, 2001, totalled \$584,754 as at November 30, 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 activities

During the first six-month period, the Company completed its IPO and began on July 11, 2001 trading its shares on the Canadian Venture Exchange (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 six-month period, the Company filed for patent protection, an activity that required an expenditure of \$104,440.

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 november 30, | | Six months ended november 30, | | Cumulative from October 9, 1998 to november 30, 2001 |
|---|------------------------------------|----------------|----------------------------------|----------------|--|
| | 2001 | 2000 | 2001 | 2000 | |
| | \$ | \$ | \$ | \$ | \$ |
| Operating expenses | | | | | |
| Research (note 3) | 196,266 | 263,455 | 323,922 | 351,852 | 1,246,033 |
| Marketing | 44,019 | 10,405 | 61,572 | 18,416 | 79,763 |
| Administration (note 4) | 289,945 | 53,588 | 599,288 | 90,150 | 1,153,805 |
| Financial communications | 97,503 | | 159,110 | | 188,100 |
| Depreciation of fixed assets | 7,832 | | 15,260 | | 24,130 |
| Loss before interest income | 635,565 | 327,448 | 1,159,152 | 460,418 | 2,691,831 |
| Interest income | 37,110 | 15,212 | 57,953 | 31,990 | 104,205 |
| Net loss | 598,455 | 312,236 | 1,101,199 | 428,428 | 2,587,626 |
| Net loss per share | 0.040 | 0.031 | 0.078 | 0.042 | |
| Weighted average number of shares outstanding | 15,118,791 | 10,100,000 | 14,153,060 | 10,100,000 | |

Interim deficit

(unaudited)

| | Three months ended november 30, | | Six months ended november 30, | |
|----------------------------|------------------------------------|---------|----------------------------------|---------|
| | 2001 | 2000 | 2001 | 2001 |
| | \$ | \$ | \$ | \$ |
| Balance, beginning of year | 3,013,270 | 602,210 | 1,662,427 | 486,018 |
| Net loss | 598,455 | 312,236 | 1,101,199 | 428,428 |
| Share issue expenses | | | 848,099 | |
| Balance, end of year | 3,611,725 | 914,446 | 3,611,725 | 914,446 |

Neptune Technologies & Bioresources inc.

(A development-stage company)

Interim Cash Flows

(unaudited)

| | Three months ended november 30, | | Six months ended november 30, | | Cumulative from October 9, 1998 to november 30, 2001 |
|---|------------------------------------|-----------|----------------------------------|-----------|--|
| | 2001 | 2000 | 2001 | 2000 | |
| | \$ | \$ | \$ | \$ | \$ |
| OPERATING ACTIVITIES | | | | | |
| Net loss | (598,455) | (312,236) | (1,101,199) | (428,428) | (2,587,626) |
| Non-cash items | | | | | |
| Depreciation of fixed assets | 7,832 | | 15,260 | | 24,130 |
| Changes in working capital items | (189,515) | 58,602 | (793,471) | 60,026 | (414,406) |
| Cash flows from operating activities | (780,138) | (253,634) | (1,879,410) | (368,402) | (2,977,902) |
| INVESTING ACTIVITIES | | | | | |
| Fixed assets | (40,724) | | (46,728) | | (182,621) |
| Patents | (17,922) | | (104,440) | | (169,641) |
| Cash flows from investing activities | (58,646) | — | (151,168) | — | (352,262) |
| FINANCING ACTIVITIES | | | | | |
| Bank loan | | | 437,000 | | 437,000 |
| Due to a company controlled by an officer and director | | (15,510) | | (15,510) | 116,510 |
| Issue of capital stock | 30,000 | | 5,030,000 | | 6,730,054 |
| Issue expenses | | | (848,099) | | (923,099) |
| Deferred charges | | | 283,842 | | |
| Cash flows from financing activities | 30,000 | (15,510) | 4,902,743 | (15,510) | 6,360,465 |
| Net increase (decrease) in cash and cash equivalents | | | | | |
| Cash and cash equivalents, beginning of period | 3,839,085 | 1,408,596 | 158,136 | 1,523,364 | |
| Cash and cash equivalents, end of period | 3,030,301 | 1,139,452 | 3,030,301 | 1,139,452 | 3,030,301 |

Neptune Technologies & Bioresources inc.

(A development-stage company)

Interim Balance Sheets

| | Unaudited November 30, 2001 | Audited May 31, 2001 |
|---|-----------------------------------|----------------------------|
| | \$ | \$ |
| ASSETS | | |
| Current assets | | |
| Cash | 200,301 | 158,136 |
| Short-term investments | 2,830,000 | |
| Accounts receivable | 260,921 | 113,596 |
| Research tax credits receivable | 685,267 | 559,269 |
| Stock | 11,937 | |
| Prepaid expenses | 25,525 | 13,157 |
| | 4,013,951 | 844,158 |
| Fixed assets | 158,491 | 127,023 |
| Patents | 169,641 | 65,201 |
| Deferred charges | | 283,842 |
| | 4,342,083 | 1,320,224 |
| LIABILITIES | | |
| Current liabilities | | |
| Bank loan | 437,000 | |
| Accounts payable and accrued liabilities | | |
| Company controlled by an officer and director | | 99,095 |
| Others | 584,754 | 981,502 |
| | 1,021,754 | 1,080,597 |
| SHAREHOLDERS' EQUITY | | |
| Capital stock and warrants (note 5) | 6,932,054 | 1,902,054 |
| Deficit | (3,611,725) | (1,662,427) |
| | 3,320,329 | 239,627 |
| | 4,342,083 | 1,320,224 |

Neptune Technologies & Bioresources inc.

(A development-stage company)

Notes to Interim Financial Statements

November 30, 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 \$24,000 (\$34,957 in 2000). The \$24,000 costs include \$15,000 in management fees, \$15,000 in 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 November 30, 2001, nothing was due to this shareholder (\$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

November 30, 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 november 30, | | Six months ended november 30, | | Cumulative from October 9, 1998 to november 30, 2001 |
|-----------------------------------|------------------------------------|---------|----------------------------------|---------|--|
| | 2001 | 2000 | 2001 | 2000 | |
| | \$ | \$ | \$ | \$ | \$ |
| Service fees | 15,000 | 15,000 | 30,000 | 30,000 | 190,000 |
| Salaries and employee benefits | 74,905 | 20,415 | 144,728 | 52,725 | 450,677 |
| Subcontracting | 215,081 | 215,239 | 317,062 | 251,286 | 1,305,434 |
| General and study expenses | 333 | | 593 | | 30,945 |
| Travel and entertainment expenses | 1,196 | 12,801 | 2,192 | 17,841 | 42,711 |
| | 306,515 | 263,455 | 494,575 | 351,852 | 2,019,767 |
| Research tax credits | (110,249) | | (170,653) | | (773,734) |
| Research expenses | 196,266 | 263,455 | 323,922 | 351,852 | 1,246,033 |

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

November 30, 2001 (unaudited)

4 - INFORMATION REGARDING ADMINISTRATION COST

| | Three months ended november 30, | | Six months ended november 30, | | Cumulative from October 9, 1998 to november 30, 2001 |
|------------------------------|------------------------------------|---------------|----------------------------------|---------------|--|
| | 2001 | 2000 | 2001 | 2000 | |
| | \$ | \$ | \$ | \$ | \$ |
| Royalties | | | | | 2,500 |
| Salaries and fringe benefits | 133,755 | 450 | 248,325 | 610 | 496,856 |
| Board of committee | 17,500 | | 35,000 | | 35,000 |
| Travelling and entertainment | 22,656 | | 40,462 | 612 | 68,909 |
| Rent | 19,363 | | 38,727 | | 72,884 |
| Maintenance and repairs | 3,435 | 187 | 7,766 | 736 | 15,576 |
| Insurance | 3,978 | | 7,957 | | 13,436 |
| Communication | 3,263 | 1,343 | 6,892 | 1,772 | 14,826 |
| Taxes and license | 4,500 | 1,831 | 9,259 | 1,831 | 22,742 |
| Office supplies | 8,047 | 2,148 | 13,890 | 3,811 | 33,440 |
| Professional fees | 47,203 | 32,629 | 144,299 | 50,689 | 270,606 |
| Management fees | 15,000 | 15,000 | 30,000 | 30,000 | 90,000 |
| Financial expenses | 11,245 | | 16,711 | 89 | 17,030 |
| | 289,945 | 53,588 | 599,288 | 90,150 | 1,153,805 |

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.

On October 4, 2001, the company received \$30,000 from the exercise of 30,000 option at \$1.00 each.

| | November 30, 2001 | May 31, 2001 |
|--|----------------------|-----------------|
| | \$ | \$ |
| Issued and fully paid | | |
| 15,130,000 (2001-05-31 : 10,100,000) common shares | 6,928,050 | 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 |
| | 6,932,054 | 1,902,054 |