



Second Quarterly Report
Ending November 30, 2002

Management's Discussion and Analysis

Management's Discussion and Analysis is intended to assist in the understanding and assessment of the trends and significant changes in the operating results and financial position of Neptune Technologies & Bioresources ("the Company"). Historical results are no guarantee of future performance. This analysis should be read in conjunction with the Company's intermediate consolidated financial statements of November 30, 2002 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 of companies involved in any new emerging market. Such risks include, but are not limited to, its financial position and/or evolving and unpredictable business and management of potentially high growth. To counter these risks, the Company must, among other things: i) succeed in its current financing phase; ii) continue to develop and improve its technological platform and extraction processes; iii) pursue the validation of its product benefits in the nutraceutical, cosmeceutical and biopharmaceutical fields; iv) formulate and implement its business and marketing strategy; v) face competition; vi) hire, attract, retain and motivate qualified personnel. There can be no guarantee that the Company will be successful in containing such risks.

The Company

Founded in October 1998, the Company is pursuing its mission of developing and exploiting innovative high-yield technological processes in the production of value-added natural products, such as oils rich in Omega-3 fatty acids, phospholipids and antioxidants, protein concentrates, amino acid concentrates and other marine and aquatic biomass extracts. The Company intends to market its products for innovative applications in the nutraceutical, cosmeceutical and biopharmaceutical fields. Krill, a cold deepwater zooplankton, is the first group of marine biomass actively exploited by the Company.

Review of the three-month period ending November 30, 2002

During this quarter, the Company continued to establish its operational structures, pursued its clinical studies, in order to validate its products' benefits on human health, its commercialization and industrialization phase and pursued its approach of financing, which are indispensable to the fulfillment of its business plan. At the end of this quarter, the Company has also revised its strategy and started presenting its new business plan to potential investors.

Concerning its industrialization phase, the technological challenge, represented by its process' industrialization, was succeeded in October 2002. When the company officially opened its plant, at the beginning of November 2002, it obtained the validation of its process

performance by the confirmation of its products' quality from external laboratories and by the achievement, only one month after the plant's opening, of a productivity level of 60%. The maximum plant's capacity will permit to monthly produce up to 5,000 kg of krill oil and 20,000 kg of protein concentrates.

During this second quarter, Neptune continued, along with its industrialization phase, different pre-clinical and clinical studies, to develop an extraction process for krill oil components and to protect its intellectual properties. Neptune has, up to now, scientific results showing benefits of krill oil on different condition of skin cancer, on the pre-menstrual syndrome and also obtained promising clinical results concerning the benefits of krill oil for people suffering from osteoarthritis and/or from high cholesterol. Neptune also benefits from the discovery of a new flavonoid molecule, for which patents demands have been deposited.

In November 2002, Neptune also begins, first, on the nutraceutical market, a large commercialization campaign, which Neptune actively continues. From this date, the Company sent more than 40 samples of its products to different natural product distributors who were targeted to be met again, for most of them, during a visit to their business place or during the annual "Supply Side Show" event, which happened on December 2002 in Las Vegas.

It is also in November 2002 that the Company made its first sales of its products (Neptune Krill Oil (NKOTM) and Neptune Lyo-Krill (NLKTM)) on the American market for its krill oil and on the Asian market for its lyo-krill.

Concerning its financing, the Company presented to potential investors, during this quarter, its business plan, first made on April 2002, which is mostly oriented on research and development and containing investment projects up to \$14,000,000 for which the Company received offers in equity financing from Investissement Desjardins (\$3,000,000) and Innovatech du Sud du Québec (\$2,000,000).

However, in November 2002, Neptune, after achieving its development and its processing phase, subjected to short-term financial pressure, after obtaining a new intermediate financing of \$1,000,000 from Innovatech du Sud du Québec and having not completed its financing of \$14,000,000. The Company revised its business plan by rationalizing, on one hand, its current operations and, on the other hand, by giving priority to the commercialization phase of its products, now available on the market.

This is why the Company presented, at the end of the present quarter, a new business plan, containing two phases; the first one focuses on the commercialization, the maintenance of some research and development programs, the increase of its industrial productivity as well as on the improvement of the working capital. This first phase requests an initial investment of \$3,000,000 to \$4,000,000. This initial investment would also permit Neptune not only to reach its monthly profitability during the next financial year-end, but also allows Neptune to generate earnings during that same period, which is from June 2003 to May 2004.

The second phase, supported by Neptune's first phase commercial achievements, is spreaded out on a three-year period and consists in increasing its industrial capacity, its technological platform development concerning the extraction of new products, as the components of krill oil, and in the validation of new applications for its products, as well as working on their commercialization in other markets sectors. This second phase of our business plan will bring new investment needs and they should mostly be financed by traditional financing, as well as by internal earnings.

Operating results

During the second quarter ended November 30, 2002, the Company recorded its first sales, for a total amount of \$104,589. However, during the quarters ended November 30, 2002 and November 30, 2001, the Company recorded a net loss of \$1,335,959 (0.085 per share) compared to \$598,455 (0.040 per share) respectively.

This additional loss of the present quarter is mainly explained by the cost of sales totalizing \$544,529 during the quarter ended November 30, 2002, which was nonexistent during the quarter ended November 30, 2001.

Also, during the quarter ended November 30, 2002, the operating expenses amounted to \$907,146, compared to \$635,565 for the quarter ended November 30, 2001. This increase of \$271,581 is mainly due to the increase of \$78,795 in commercialization expenses and by the increase of \$172,698 in our financial expenses; these last financial expenses were at \$11,245 during the quarter ended November 30, 2001 and totalize \$183,943 during the present quarter. This increase is explained by the fact that the loans are higher and are spread out, contrary to the quarter ended November 30, 2001, during all the quarter ended November 30, 2002.

The administration expenses of the Company remained mostly at the same level for the comparative periods. In fact, the administrative expenses totalled respectively, for the quarters ended on November 30, 2002 and November 20, 2001, \$299,808 and \$278,700.

Balance sheets

As of November 30, 2002, the Company's total assets amounted to \$7,656,477 compared to \$6,367,504 as of May 31, 2002. This increase is mainly due to the additions of the production equipment at our Sherbrooke plant.

As of November 30, 2002, the Company shows a negative working capital of \$1,844,274 and of liquid assets of \$468,337, compared to the working capital of \$1,272,208 and to the liquid assets of \$2,345,642 as of May 31, 2002.

The decreasing working capital of the Company can be explained mainly by the decrease of liquidities, the account payable increase of \$854,140 between November 30, 2002 and May

31, 2002 and, by a demand loan of \$1,000,000 with capitalized interests, which amounts were principally allocated to current operations, the installation of the equipment and the start-up of the Sherbrooke plant.

Financing activity

The Company contracted, during the present quarter, a loan to finance its operations.

This loan, in the amount of \$1,000,000, in the form of a demand loan, expiring July 31, 2003, was concluded with Innovatech du Sud du Québec. This loan will be disbursed by equal instalments of \$250,000; it bears interest at 15% annually and generates a risk premium of 25% for each instalment disbursed. No instalment of \$250,000 has been yet disbursed during the quarter ended November 30, 2002.

Outlook

Our main challenges for the next period are, on one hand, to realize a financing that would allow us to improve our negative working capital, due to an exceeding of costs of the Sherbrooke plant, accumulated with costs due to the delay faced during the industrialization phase of our business development plan, to operate the Sherbrooke plant and to optimize its production of krill oil and its by-products and, on the other hand, and in priority, to commercialize our products in order to generate revenues that would permit Neptune to self-finance its operating activities and to finance its research programs in order to develop applications for its products and components, offered to the nutraceutical, cosmeceutical and biopharmaceutical markets, as well as to the new nutrigenomic market.

The Company, even though it takes all the measures it can to overcome the inconvenient due to its financial situation and that it benefits from the support of financial institutions to complete its financing round, exposes itself, on actual basis to outside pressure. However, the Company stays confident to be able to accomplish, on a short-term period, its financing and to make sales that would permit it to actively pursue the achievement of its business plan. However, the nutraceutical, cosmeceutical and biopharmaceutical industries are highly competitive. Many firms engage in activities similar to those of the Company, including research and development of applications intended for human use. More specifically, competitors developing new nutraceutical products are focusing on cosmeceutical and pharmaceutical applications based on the specific properties of their products. A number of these firms have financial resources, research and development capabilities, as well as manufacturing and marketing facilities greater than the Company. Moreover, educational 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 through their own means, or via collaboration agreements.

The Company recognizes that it faces major competition with respect to its nutraceutical products. In addition, certain biomedical and biotechnological firms, 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 cold krill oil extraction process. However, an emerging Quebec company is focused on producing lyophilized krill in powder and capsule form as a food supplement. Finally, the Company also 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 Consolidated Statement of Earnings (unaudited)

	Three months ended November 30,		Six months ended November 30,		Cumulative from October 9, 1998 to November 30, 2002
	2002	2001	2002	2001	
	\$	\$	\$	\$	\$
Sales	104,589		104,589		104,589
Cost of sales					
Raw material and general expenses	457,642		457,642		462,642
Depreciation of fixed assets	86,887		86,887		86,887
	544,529		544,529		549,529
Operating expenses					
Research (note 4)	132,041	196,266	345,060	323,922	2,257,061
Marketing	122,814	44,019	198,721	61,572	356,223
Administration (note 5)	299,808	278,700	592,104	582,577	2,261,795
Financial communications	85,724	97,503	169,074	159,110	445,163
Financial (note 6)	183,943	11,245	280,403	16,711	375,345
Depreciation of fixed assets	82,816	7,832	93,661	15,260	138,884
	907,146	635,565	1,679,023	1,159,152	5,834,471
Loss before interest income	1,347,086	635,565	2,118,963	1,159,152	6,279,411
Interest income	11,127	37,110	22,634	57,953	146,496
Net loss	1,335,959	598,455	2,096,329	1,101,199	6,132,915
Basic and diluted loss per share	0.085	0.040	0.134	0.078	
Weighted average number of shares outstanding	15,640,000	15,118,791	15,640,000	14,153,060	

Interim Consolidated Statement of Deficit (unaudited)

	Three months ended November 30,		Six months ended November 30,	
	2002	2001	2002	2001
	\$	\$	\$	\$
Balance, beginning of period	5,919,933	3,013,270	5,159,563	1,662,427
Net loss	1,335,959	598,455	2,096,329	1,101,199
Share issue expenses				848,099
Balance, end of period	7,255,892	3,611,725	7,255,892	3,611,725

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Interim Consolidated Statement of Cash Flows

(unaudited)

	Three months ended		Six months ended		Cumulative from October 9, 1998 to November 30, 2002
	2002	November 30, 2001	2002	November 30, 2001	
	\$	\$	\$	\$	\$
OPERATING ACTIVITIES					
Net loss	(1,335,959)	(598,455)	(2,096,329)	(1,101,199)	(6,132,915)
Non-cash items					
Depreciation of fixed assets	169,703	7,832	180,548	15,260	225,771
Interest on long-term debt	125,265		181,515		237,765
Changes in working capital items	894,651	(189,515)	763,633	(793,471)	855,102
Cash flows from operating activities	(146,340)	(780,138)	(970,633)	(1,879,410)	(4,814,277)
INVESTING ACTIVITIES					
Banker's acceptance					(116,627)
Fixed assets	(354,100)	(40,724)	(2,032,344)	(46,728)	(4,387,227)
Patents and start-up costs	(172,199)	(17,922)	(774,363)	(104,440)	(1,435,576)
Cash flows from investing activities	(526,299)	(58,646)	(2,806,707)	(151,168)	(5,939,430)
FINANCING ACTIVITIES					
Bank loan			(437,000)	437,000	
Demand note			972,790		972,790
Due to a company controlled by an officer and administrateur					116,510
Increase in long-term debt	291,160		1,558,611		2,117,951
Repayment of long-term debt	(59,629)		(66,794)		(66,794)
Issue of convertible debenture					1,500,000
Issue of capital stock		30,000		5,030,000	7,230,054
Issue of warrants			89,259		89,259
Issue expenses				(848,099)	(1,021,977)
Deferred charges	(10,000)		(10,000)	283,842	(10,000)
Cash flows from financing activities	221,531	30,000	2,106,866	4,902,743	10,927,793
Increase (decrease) in cash and cash equivalents	(451,108)	(808,784)	(1,670,474)	2,872,165	174,086
Cash and cash equivalents, beginning of period	625,194	3,839,085	1,844,560	158,136	
Cash and cash equivalents, end of period	174,086	3,030,301	174,086	3,030,301	174,086

Neptune Technologies & Bioresources inc.

(A development-stage company)

Interim Consolidated Balance Sheets

	Unaudited November 30, 2002	Audited May 31, 2002
	\$	\$
ASSETS		
Current assets		
Cash	174,086	1,844,560
Banker' s acceptance, 2.9 %	116,627	116,627
Accounts receivable	177,624	384,455
Research tax credits receivable	429,332	918,911
Inventory	852,528	106,930
Prepaid expenses	66,467	25,148
	1,816,664	3,396,631
Fixed assets (note 7)	4,463,425	2,309,660
Other assets	1,376,388	661,213
	7,656,477	6,367,504
LIABILITIES		
Current liabilities		
Bank loan		437,000
Demand note, face amount of \$1,000,000, 15 %	1,038,014	
Accounts payable and accrued liabilities	2,381,563	1,527,423
Instalments on long-term debt	241,361	160,000
	3,660,938	2,124,423
LONG-TERM DEBT (note 8)	2,046,368	399,340
DEBENTURE (note 9)	1,668,750	1,556,250
	7,376,056	4,080,013
SHAREHOLDERS' EQUITY		
Capital stock and warrants (note 10)	7,532,310	7,447,054
Contributed surplus	4,003	
Deficit	(7,255,892)	(5,159,563)
	280,421	2,287,491
	7,656,477	6,367,504

Neptune Technologies & Bioresources inc.

(A development-stage company)

Notes to Interim Financial Statements

November 30, 2002 (unaudited)

1 - INTERIM FINANCIAL INFORMATION

These interim consolidated financial statements as at November 30, 2002 are unaudited. They have been prepared by the company in accordance with generally accepted accounting principles in Canada for interim information and use the same accounting policies and methods in the preparation of the company's most recent annual consolidated financial statements with the exception of the accounting change described in Note 2. These interim consolidated financial statements should be read in conjunction with the audited annual consolidated financial statements and notes thereto in the company's 2002 annual report.

2 - CHANGE IN ACCOUNTING POLICIES

On June 1st, 2002, the Company adopted prospectively the recommendations of the Canadian Institute of Chartered Accountants Handbook Section 3870, *Stock-based Compensation and Other Stock-based Payments*. This section defines notably recognition, measurement and disclosure standards for stock-based compensation to non-employees and employees. According to the new standards, stock-based payments to non-employees should be recorded systematically in the financial statements of the Company. These standards define a fair value-based method of accounting and encourage entities to adopt this method of accounting for its stock-based employee compensation plan. Under this method, compensation cost should be measured at the grant date based on the fair value of the award and should be recognized over the related service period. An entity that does not adopt the fair value method of accounting for its awards granted to employees is required to include in its financial statements pro forma disclosures of net income and earnings per share as if the fair value method of accounting had been applied. The Company has adopted the later alternative treatment. As no options were granted during the quarter, no such disclosure was required.

3 - 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 2001). A monthly amount of \$2,000 is deducted for the use of the Company's premises by this shareholder. During the period, total fees amount to \$24,000 (\$24,000 in 2001). The \$24,000 fees include \$15,000 in management fees, \$15,000 in research fees and the total amount is reduced by a \$6,000 reduction for the use of the Company's premises by this shareholder. As at November 30, 2002, the balance due to this shareholder is nil (nil as at May 31, 2002).

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.

The Company has also entered into an agreement calling for payments to a company controlled by an officer and director, 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.

Neptune Technologies & Bioresources inc.

(A development-stage company)

Notes to Interim Financial Statements

November 30, 2002 (unaudited)

4 - INFORMATION REGARDING RESEARCH PROJECTS IN PROGRESS

	Three months ended		Six months ended		Cumulative from October 9, 1998 to November 30, 2002
	November 30,		November 30,		
	2002	2001	2002	2001	
	\$	\$	\$	\$	\$
Service fees (note 3)	15,000	15,000	30,000	30,000	250,000
Salaries and employee benefits	102,905	74,905	209,294	144,728	852,008
Subcontracting	37,643	215,081	175,567	317,062	2,150,779
General and study expenses		333		593	33,311
Travel and entertainment expenses	6,572	1,196	7,629	2,192	55,771
	162,120	306,515	422,490	494,575	3,341,869
Research tax credits	(30,079)	(110,249)	(77,430)	(170,653)	(1,084,808)
Research expenses	132,041	196,266	345,060	323,922	2,257,061

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

5 - INFORMATION REGARDING ADMINISTRATION COST

	Three months ended		Six months ended		Cumulative from October 9, 1998 to November 30, 2002
	November 30,		November 30,		
	2002	2001	2002	2001	
	\$	\$	\$	\$	\$
Salaries and employee benefits	163,060	133,755	299,886	248,325	1,065,913
Board of Directors	9,375	17,500	18,750	35,000	81,000
Travel and entertainment	15,157	22,656	62,212	40,462	157,442
Rent	20,463	19,363	40,925	38,727	156,243
Maintenance and repairs	9,233	3,435	13,356	7,766	39,721
Insurance	6,028	3,978	10,916	7,957	33,539
Communication	5,659	3,263	9,310	6,892	30,438
Taxes and permits		4,500	32,525	9,259	77,346
Office expenses	19,062	8,047	26,321	13,890	79,954
Professional fees	36,771	47,203	47,903	144,299	390,199
Management fees (note 3)	15,000	15,000	30,000	30,000	150,000
	299,808	278,700	592,104	582,577	2,261,795

Neptune Technologies & Bioresources inc.

(A development-stage company)

Notes to Interim Financial Statements

November 30, 2002 (unaudited)

6 - INFORMATION REGARDING FINANCIAL COST

	Three months ended		Six months ended		Cumulative from October 9, 1998 to November 30, 2002
	November 30,		November 30,		
	2002	2001	2002	2001	
	\$	\$	\$	\$	\$
Bank charge	478	4,661	5,937	5,084	20,112
Interest - bank loan	65,223	6,584	69,106	11,627	91,339
Interest - long-term debt	118,242		205,360		263,894
	183,943	11,245	280,403	16,711	375,345

7 - FIXED ASSETS

	November 30, 2002		
	Cost	Accumulated depreciation	Net
	\$	\$	\$
Leasehold improvements	719,020	41,041	677,979
Furniture and fixtures	98,123	24,606	73,517
Office equipment	51,445	10,394	41,051
Processing equipment	3,385,136	56,494	3,328,642
Laboratory equipment	74,328	2,484	71,844
Computer equipment	56,825	14,731	42,094
Software	2,350	891	1,459
Assets under capital leases	232,781	5,942	226,839
	4,620,008	156,583	4,463,425

	May 31, 2002		
	Cost	Accumulated depreciation	Net
	\$	\$	\$
Leasehold improvements	427,937	13,859	414,078
Furniture and fixtures	88,278	17,753	70,525
Office equipment	51,445	5,095	46,350
Processing equipment	1,746,818		1,746,818
Computer equipment	38,055	8,213	29,842
Software	2,350	303	2,047
	2,354,883	45,223	2,309,660

Neptune Technologies & Bioresources inc.

(A development-stage company)

Notes to Interim Financial Statements

November 30, 2002 (unaudited)

8 - LONG-TERM DEBT

	November 30, 2002	May 31, 2002
	\$	\$
Mortgage loan, authorized amount, \$1,200,000, secured by processing equipment and laboratory equipment, having a depreciated cost of \$3,400,486, prime rate plus 6%, payable in monthly capital instalments of \$20,000 starting in October 2002, maturing in September 2007	1,160,000	559,340
Mortgage loan, face amount of \$980,000, payable in 60 monthly capital instalments of \$16,333 plus an annual interest at the weekly variable rate plus 1 %, starting in September 2004, maturing in August 2009	921,742	
Obligations under capital leases, maturing at various date until 2005, interest rate varying between 9.25 % and 12.67 %, payable in monthly instalments	205,987	
	2,287,729	559,340
Instalments due within one year	241,361	160,000
	2,046,368	399,340

9 - DEBENTURE

	November 30, 2002	May 31, 2002
	\$	\$
Convertible debenture for a face amount of \$1,500,00, bearing interest at 15%	1,668,750	1,556,250

10 - CAPITAL STOCK AND WARRANTS

	November 30, 2002	May 31, 2002
	\$	\$
Issued and fully paid		
15,640,000 (2002-05-31 : 15,640,000) common shares	7,443,050	7,443,048
4,050,000 Series "A" warrants		4,003
1,000,000 Series "B" warrants		1
(2002-05-31 : 2,490,000) Series "C" warrants		1
100,000 Series "D" warrants	1	1
196,000 Series "E" warrants	62,049	
100,000 Series "F" warrants	27,210	
	89,260	4,006
	7,532,310	7,447,054