



Third Quarterly Report
Ending February 28, 2003

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 February 28, 2003 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) hire and motivate qualified personnel; iii) exploit its extraction process, produce and continue the improvement and optimization of its technological platform; iv) increase the commercialization of its products already offered in the nutraceutical and cosmeceutical markets; v) pursue the validation of its products' benefits in the nutraceutical, cosmeceutical and biopharmaceutical fields; and vi) face competition. 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 added-value natural products, such as oils rich in Omega-3 fatty acids, phospholipids and antioxidants, protein concentrates, amino acids concentrates and other marine and aquatic biomass extracts. During the present quarter, the Company reoriented and reorganized its exploitation while maintaining the selling of its products in the nutraceutical and cosmeceutical markets. Krill, a cold deepwater zooplankton, is the first group of marine biomass actively exploited by the Company.

Review of the three-month period ending February 28, 2003

During this quarter, the Company, because of its restricted liquidities, of its inventory in stock and of its new standards has revised its action plan, readjusted its current operations and reorganized its management team. The Company, in fact, decreased and then stopped its production to restart it at the end of the present quarter. It also postponed or slowed down, in some cases, its clinical studies. The Company first and principally increased its investment and human resources allocated to its products' commercialization and to the financing of the new business plan. During the same period, the Company also has rationalized its employees' duties.

The Company, consequently to its reorganization, its reorientation and to the slow down during this quarter, also accomplished the revision of its operational structure and established a new organization more manageable and also in order to give a better support to the Company's products commercialization. While maintaining its clinical studies, in order to validate its products' benefits on human health, the Company maintained its efforts in order to improve its productivity, its researches in finding strategic partners and financing.

During this quarter, the Company has formed a Steering Committee formed of three administrators and two directors. The members of the Steering Committee, met periodically, and manage of the Company's affairs. They also validated the action plan taken by the management, while measuring the progress made during that period. The Company has also, during this last quarter, reorganized its internal management structure, proceeded and accepted some changes in its management's personnel. A new experienced team of sales and business development took over the former management team, while the former Chief Financial Officer and Vice-President of Operations are not working for the Company anymore.

Concerning its production, before the temporary halt, the Company accumulated an inventory of more than 3,580 kg of krill oil and close to 1,100 kg of protein concentrate. More than half of this inventory has been sold during this quarter. The production's management also took advantage of this temporary halt to make some changes and to improve the platform and the production.

Concerning its financing, the Company negotiated its financings for which it obtained, during this quarter, offers and interest confirmations for a total of 4 million dollars. This financing regrouped, among others, two institutions and private investors. The Company should conclude these financings during the next quarter. From these pending financings, the Company obtains from Innovatech du Sud du Québec, on the 1-million-dollar-financing proposed, an advance of \$500,000 which, at the closing of the global financing, should be converted into quasi-equity. This advance, added to the Company's short-term creditors support, allowed Neptune to pursue its exploitation and commercialization activities.

Concerning its commercialization, the Company revised its strategy and formed a new and dynamic team to follow-up with different distributors which they met at the beginning of December 2002 at the Supply Side Show, held at Las Vegas. Then, during the quarter, other sales were made to new clients covering many store outlets in the United States. The Company also caught the interest of many other distributors, among which some are currently working on preparing the marketing of NeptuneTM products either in Canada, in some regions of the United States and in some parts of Europe.

Neptune maintained some clinical studies during this third quarter. This is why Neptune, which currently has scientific results on the benefits of krill oil on different conditions of skin cancer and on the premenstrual syndrome, obtains during this quarter new scientific results confirming the benefits of krill oil for people suffering from high cholesterol. Encouraged by these results, Neptune pursued its clinical research in order to

demonstrate the benefits of krill oil for people suffering of osteoarthritis and/or from arteriosclerosis. Neptune also benefits from the discovery of a new flavonoid for which patent requests have been deposited.

Finally, this quarter has been one of changes, adjustments and transition. In fact, the Company can now produce its krill oil and its protein concentrate at its Sherbrooke plant. These products are sold in all Quebec pharmacies under the PurKrill™ brand name, distributed by Lalco Laboratory and in the United States under different brand names. The Company, which made the required internal changes, which succeeded in the technological challenge that represented the industrialization of its platform, is currently taking up successfully the challenge of its products' commercialization. However, the Company has to proceed, during the next quarter, to the closing of its financing.

Operating results

During the second quarter ended February 28, 2003, the Company made cumulative sales of \$274,752. However, during the quarters ending February 28, 2003 and February 28, 2002, the Company recorded, during these periods, a net loss of \$525,002 (0,034¢ per share) compared to \$736,537 (0,049¢ per share) respectively.

This decrease of \$211,535 of the loss during the present quarter ending on February 28, 2003, compared to the same quarter of the preceding exercise, is mainly explained by the decrease of \$222,034 of the operating fees incurred during this quarter ending February 28, 2003. In fact, the operating fees totaled \$747,800 during the quarter ending February 28, 2002, while they totaled \$525,766 during the current quarter ending February 28, 2003, representing a decrease of \$222,034.

Even though the financial expenses increased by \$246,106, totalizing \$256,686 during the quarter ending February 28, 2003, comparatively to \$10,580 during the same quarter of the previous exercise and that the commercialization expenses also increased by \$84,483 during the same comparative periods, the research expenses net of tax credit for an amount of \$438,686, the administrative expenses for an amount of \$74,418 and the financial communication expenses for an amount of \$32,404 have decreased of these respective amounts during the quarter ending February 28, 2003, comparatively to the same quarter of the previous exercise. These variations mainly explain the decrease obtained for the operating expenses during the quarter ending February 28, 2003.

Balance sheets

As of February 28, 2003, the Company's total assets amounted \$8,315,212 compared to \$6,367,504 as of February 28, 2002. This increase is mainly due, on one hand, to the increase of the inventory, of the fixed assets and of other assets, the latter mainly due to the capitalization of the start-up expenses and on the other hand, to the important decreases of the accounts receivable.

As of February 28, 2003, the Company shows a negative working capital of \$2,456,261 and of liquid assets of \$1,640,770, compared to the working capital of \$1,272,208 and to the liquid assets of \$3,396,631 as of February 28, 2003.

The decreasing working capital of the Company can be mainly explained by the decrease of liquidities and of accounts receivable, the accounts payable increase of \$814,594 between February 28, 2003 and May 31, 2003 and by a demand loan of \$1,530,000 with capitalized interests, amounts mainly attributable to current operations and inventory.

Financing activities

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 Suc 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. Two instalments of \$250,000 have been disbursed during the quarter ended February 28, 2003.

Outlook

Our main challenges for the next period are, on one hand, to materialize the current financing of 5.25 million dollars that would also 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 pursue dynamically and strategically the commercialization of 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 of its products and components, offered to the nutraceutical, cosmeceutical and biopharmaceutical markets, as well as to the new nutrigenomic market.

Even though the Company takes all the measures it can to overcome the inconvenience due to its financial situation and benefits from the support and the collaboration of its creditors and the financing proposals of financial institutions that will help complete its financing round, Neptune is exposed to outside pressure considering its actual position. However, the Company stays confident to be able to materialize its financing in a really short-term period and to make important commercialization deals and sales that would allow it to actively pursue the achievement of its business plan and its objective of valorisation and maximization of our shareholders' wealth. However, the nutraceutical, cosmeceutical and biopharmaceutical industries are highly competitive. Many firms are engaged 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		Nine months ended		Cumulative from October 9, 1998 to February 28, 2003
	February 28,		February 28,		
	2003	2002	2003	2002	February 28, 2003
	\$	\$	\$	\$	\$
Operating expenses					
Research (note 4)	(37,730)	400,956	307,330	724,878	2,219,331
Marketing	118,723	34,240	322,458	95,812	484,960
Administration (note 5)	170,782	245,200	749,686	827,775	2,419,377
Financial communications	14,099	46,503	178,754	205,613	454,843
Financial (note 6)	256,686	10,580	537,090	27,293	632,032
Depreciation of fixed assets	3,206	10,321	39,666	25,581	84,889
	525,766	747,800	2,134,984	1,906,952	6,295,432
Loss before interest income	525,766	747,800	2,134,984	1,906,952	6,295,432
Interest income	764	11,263	23,398	69,216	147,260
Net loss	525,002	736,537	2,111,586	1,837,736	6,148,172
Basic and diluted loss per share	0.034	0.049	0.135	0.127	
Weighted average number of shares outstanding	15,640,000	15,130,000	15,640,000	14,475,128	

Interim Consolidated Statement of Deficit

(unaudited)

	Three months ended		Nine months ended	
	February 28,		February 28,	
	2003	2002	2003	2002
	\$	\$	\$	\$
Balance, beginning of period	6,746,147	3,611,725	5,159,563	1,662,427
Net loss	525,002	736,537	2,111,586	1,837,736
Share issue expenses		98,878		946,977
Balance, end of period	7,271,149	4,447,140	7,271,149	4,447,140

Neptune Technologies & Bioresources inc.

(A development-stage company)

Interim Consolidated Statement of Cash Flows

(unaudited)

	Three months ended February 28,		Nine months ended February 28,		Cumulative from October 9, 1998 to February 28, 2003
	2003	2002	2003	2002	
	\$	\$	\$	\$	\$
OPERATING ACTIVITIES					
Net loss	(525,002)	(736,537)	(2,111,586)	(1,837,736)	(6,148,172)
Non-cash items					
Depreciation of fixed assets	3,206	10,321	39,666	25,581	84,889
Interest on long-term debt	152,522		334,037		390,287
Changes in working capital items	101,692	(25,231)	919,577	(818,702)	1,011,046
Cash flows from operating activities	(267,582)	(751,447)	(818,306)	(2,630,857)	(4,661,950)
INVESTING ACTIVITIES					
Banker's acceptance	116,627		116,627		
Fixed assets	(147,334)	(203,487)	(2,179,678)	(250,215)	(4,534,561)
Patents and start-up costs	(73,044)	(162,124)	(1,267,316)	(266,564)	(1,928,529)
Cash flows from investing activities	(103,751)	(365,611)	(3,330,367)	(516,779)	(6,463,090)
FINANCING ACTIVITIES					
Bank loan			(437,000)	437,000	
Demand note	530,000		1,502,790		1,502,790
Due to a company controlled by an officer and administrateur					116,510
Increase in long-term debt			1,558,611		2,117,951
Repayment of long-term debt	(22,444)		(89,238)		(89,238)
Issue of convertible debenture		1,500,000		1,500,000	1,500,000
Issue of capital stock		500,000		5,530,000	7,230,054
Issue of warrants			89,259		89,259
Issue expenses		(98,878)		(946,977)	(1,021,977)
Deferred charges			(10,000)	283,842	(10,000)
Cash flows from financing activities	507,556	1,901,122	2,614,422	6,803,865	11,435,349
Increase (decrease) in cash and cash equivalents	136,223	784,064	(1,534,251)	3,656,229	310,309
Cash and cash equivalents, beginning of period	174,086	3,030,301	1,844,560	158,136	
Cash and cash equivalents, end of period	310,309	3,814,365	310,309	3,814,365	310,309

Neptune Technologies & Bioresources inc.

(A development-stage company)

Interim Consolidated Balance Sheets

	Unaudited February 28, 2003	Audited May 31, 2002
	\$	\$
ASSETS		
Current assets		
Cash	310,309	1,844,560
Banker' s acceptance, 2.9 %		116,627
Accounts receivable	346,499	384,455
Research tax credits receivable	85,665	918,911
Inventory	819,940	106,930
Prepaid expenses	78,357	25,148
	1,640,770	3,396,631
Fixed assets (note 7)	4,741,417	2,309,660
Other assets (note 8)	1,933,025	661,213
	8,315,212	6,367,504
LIABILITIES		
Current liabilities		
Bank loan		437,000
Demand note, face amount of \$1,530,000, 15 %	1,660,941	
Accounts payable and accrued liabilities	2,342,017	1,527,423
Instalments on long-term debt	94,073	160,000
	4,097,031	2,124,423
LONG-TERM DEBT (note 9)	2,228,017	399,340
DEBENTURE (note 10)	1,725,000	1,556,250
	8,050,048	4,080,013
SHAREHOLDERS' EQUITY		
Capital stock and warrants (note 11)	7,532,310	7,447,054
Contributed surplus	4,003	
Deficit	(7,271,149)	(5,159,563)
	265,164	2,287,491
	8,315,212	6,367,504

Neptune Technologies & Bioresources inc.

(A development-stage company)

Notes to Interim Financial Statements

February 28, 2003 (unaudited)

1 - INTERIM FINANCIAL INFORMATION

These interim consolidated financial statements as at February 28, 2003 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 paid monthly service fees of \$10,000 (\$10,000 in 2002). A monthly amount of \$2,000 was deducted for the use of the Company's premises by this shareholder. Since January 2003, the Company pays monthly service fees of \$5,000 and this shareholder no longer uses the Company's premises. During the period, total fees amount to \$18,000 (\$24,000 in 2002), from this amount, more than half was paid to third parties. The \$18,000 fees include \$10,000 in management fees, \$10,000 in research fees and the total amount is reduced by a \$2,000 reduction for the use of the Company's premises by this shareholder. As at February 28, 2003, the balance due to this shareholder is \$19,202 (nil as at May 31, 2002). The amount is shown on the balance under accounts payable and accrued liabilities.

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 agreed, on February 23, 2001, to make semestrial instalments, starting on June 1, 2002, of 1% of net annual sales to another shareholder (a company controlled by the same officer and director) for an unlimited period, as royalties, to a maximum of net earnings before taxes, interest and depreciation. As at February 28, 2003, the balance due to this shareholder is \$2,748 (nil as at May 31, 2002). The amount is shown on the balance under accounts payable and accrued liabilities.

Neptune Technologies & Bioresources inc.

(A development-stage company)

Notes to Interim Financial Statements

February 28, 2003 (unaudited)

4 - INFORMATION REGARDING RESEARCH PROJECTS IN PROGRESS

	Three months ended		Nine months ended		Cumulative from October 9, 1998 to February 28, 2003
	February 28,		February 28,		
	2003	2002	2003	2002	
	\$	\$	\$	\$	\$
Service fees (note 3)	10,000	15,000	40,000	45,000	260,000
Salaries and employee benefits	34,120	105,205	243,414	249,933	886,128
Subcontracting	17,613	480,759	193,180	797,821	2,168,392
General and study expenses		752		1,345	33,311
Travel and entertainment expenses	1,544	3,309	9,173	5,501	57,315
	63,277	605,025	485,767	1,099,600	3,405,146
Research tax credits	(101,007)	(204,069)	(178,437)	(374,722)	(1,185,815)
Research expenses	(37,730)	400,956	307,330	724,878	2,219,331

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		Nine months ended		Cumulative from October 9, 1998 to February 28, 2003
	February 28,		February 28,		
	2003	2002	2003	2002	
	\$	\$	\$	\$	\$
Salaries and employee benefits	63,867	128,710	361,598	377,034	1,127,625
Board of Directors	9,375	17,500	28,125	52,500	90,375
Travel and entertainment	4,331	9,452	66,239	49,913	161,469
Rent	24,605	19,944	65,530	58,671	180,848
Maintenance and repairs	1,151	6,643	8,439	14,409	34,804
Insurance	14,951	2,857	25,867	10,814	48,490
Communication	3,376	3,225	11,421	10,117	32,549
Taxes and permits	(3,931)	4,579	28,594	13,838	73,415
Office expenses	4,079	7,243	26,992	21,133	80,625
Professional fees	38,978	30,047	86,881	174,346	429,177
Management fees (note 3)	10,000	15,000	40,000	45,000	160,000
	170,782	245,200	749,686	827,775	2,419,377

6 - INFORMATION REGARDING FINANCIAL COST

	Three months ended		Nine months ended		Cumulative from October 9, 1998 to February 28, 2003
	February 28,		February 28,		
	2003	2002	2003	2002	
	\$	\$	\$	\$	\$
Bank charge	42,994	5,338	48,932	10,425	63,107
Interest - bank loan	93,303	5,242	162,409	16,868	184,642
Interest - long-term debt	120,389		325,749		384,283
	256,686	10,580	537,090	27,293	632,032

Neptune Technologies & Bioresources inc.

(A development-stage company)

Notes to Interim Financial Statements

February 28, 2003 (unaudited)

7 - FIXED ASSETS

February 28, 2003

	Cost	Accumulated depreciation	Net
	\$	\$	\$
Leasehold improvements	793,801	21,681	772,120
Furniture and fixtures	84,574	23,376	61,198
Office equipment	75,256	15,708	59,548
Processing equipment	3,426,687		3,426,687
Laboratory equipment	93,353		93,353
Computer equipment	58,540	17,436	41,104
Software	2,350	1,184	1,166
Assets under capital leases	286,241		286,241
	4,820,802	79,385	4,741,417

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

8 - OTHER ASSETS

February 28,
2003

May 31,
2002

	\$	\$
Patents and licences	342,373	200,369
Start-up costs		
Balance, beginning of period	405,771	
Increase		
Start-up	586,994	405,771
Raw material and general expenses	729,593	
Administration	42,299	
Product sales	(274,752)	
Balance, end of period	1,489,905	405,771
Deferred financing costs	70,747	55,073
Deferred charges	30,000	
	1,933,025	661,213

Neptune Technologies & Bioresources inc.

(A development-stage company)

Notes to Interim Financial Statements

February 28, 2003 (unaudited)

9 - LONG-TERM DEBT

	February 28, 2003	May 31, 2002
	\$	\$
Mortgage loan, authorized amount, \$1,200,000, secured by processing equipment and laboratory equipment, having a depreciated cost of \$3,520,040, 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	925,087	
Obligations under capital leases, maturing at various date until 2006, interest rate varying between 9.25 % and 12.67 %, payable in monthly instalments	237,003	
	2,322,090	559,340
Instalments due within one year	94,073	160,000
	2,228,017	399,340

10 - DEBENTURE

	February 28, 2002	May 31, 2002
	\$	\$
Convertible debenture for a face amount of \$1,500,00, bearing interest at 15%	1,725,000	1,556,250

11 - CAPITAL STOCK AND WARRANTS

	February 28, 2003	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