NEPTUNE

technologies & bioressources

Annual report 2004

TABLE OF CONTENTS

COMPANY PROFILE

Neptune Technologies & Bioressources Inc. is active in the field of high value-added natural product extraction from marine biomasses. Using an exclusive process, the Company processes abundant and underexploited marine species in order to extract a range of bioactive ingredients while preserving their properties.

These ingredients include phospholipids, polyunsaturated fatty acids and antioxidants, which have been demonstrated to contribute to human well-being through the improvement of nutritional functionality, the maintenance of proper health and the effectiveness of cosmetic and biopharmaceutical care, to name a few.

Through strategic alliances and partnerships, as well as through clinical studies, the Company continues to demonstrate the beneficial effects of these products, when combined with various ingredients, and their components on human health. In doing so, the Company develops and markets new formulas and new products specific to various applications in high growth markets such as, during the initial phase, the nutraceutical market. In the short to medium term, the Company also intends to penetrate the cosmeceutical, biopharmaceutical and nutrigenomics markets.

A Significant Breakthrough: Products Extracted from Krill

Neptune Technologies & Bioressources Inc. uses its exclusive extraction process, Neptune OceanExtract™, to process krill, a zooplankton typically found in cold, deep waters. The primary extract from this process, produced in oil form, is made up of an abundance of phospholipids, polyunsaturated fatty acids and antioxidants, including the only flavonoid originating from animals.

The results of clinical studies have confirmed the benefits of Neptune Krill Oil™ (NKO™) with regards to various human conditions. The Company is pursuing its research and development efforts in order to, on the one hand, adapt its unique extraction process to other marine species, underexploited and unexploited forms of marine life in particular, and, on the other hand, in order to develop additional applications.

NEPTUNE
technologies & bioressources

MESSAGE TO SHAREHOLDERS

During the 2003/2004 fiscal year, and from its facility in Sherbrooke, Neptune Technologies & Bioressources Inc. (“Neptune” or “the Company”) continued the production and production improvement processes for its innovative technological platform, Neptune OceanExtract™. The Company extracts and markets high value-added natural products derived from marine biomasses, such as the oil extracted from krill, which is rich in Omega-3 fatty acids, phospholipids and antioxidants (Neptune Krill Oil – NKO™), and various protein concentrates (such as Neptune LyO-Krill – NLK™).

The production plant and the two laboratories, covering a total area of 1,415 square meters (15,000 square feet), allow for continuous production under increasingly optimal conditions. In fact, at full capacity, the annual production of NKO™ and protein concentrate could ultimately reach 60,000 kg and approximately 300,000 kg respectively. As for the two laboratories, one is used for the preparation of samples and basic physicochemical measurements, while the second allows the carrying-out of precise chemical analyses using the high precision equipment at the Company’s disposal.

Its unique technological platform, Neptune OceanExtract™, delivers several cold extraction processes for natural bioactive products and components from the marine biomass. Cold processing allows for the preservation of the bioactive properties of the extracted substances. Applied to krill, this unique process allows for, among others, the extraction of the highest quality marine oil, bacteria free and ready for human consumption. The product demonstrates excellent stability, even after 24 months, without the addition of any preservative agent.

According to market studies, Neptune is the first and only company to commercially exploit an extraction technology capable of using the full value of krill and, eventually, other marine species. Neptune exploits this technology with respect of licence agreement and has the purchase option for the intellectual property. Several patent requests have been deposited in various countries and several of these have already been granted.

The Company systematically maintains strict protection policies with regards to its intellectual properties relating to its process, its products and their components, as well as certain specific applications. Through the application of trademarks, the Company also protects its logos in North America, Europe and Asia. In addition, the Company also received the necessary authorisation to sell its NKO™ and NLK™ products as natural supplements in North America, as well as in several European and Asian countries. It continues to expand its market and is pursuing its authorization initiatives for the sale of its products in several other countries within these continents.

The primary characteristics of these products are as follows:

Neptune Krill Oil™

Marine oil that provides a unique natural blend of nutritional elements. Its elevated content in Omega-3-6-9 polyunsaturated fatty acids, antioxidants (such as astaxanthin), vitamin A, vitamin E and phospholipids make it a unique and exceptional product. It is also characterized by the lack of need for preservative agents and the remarkable stability of its essential fatty acids.

Neptune LyO-Krill™

Innovative product derived from krill that provides bioactive ingredients in the form of natural antioxidants such as: astaxanthin, vitamin A, vitamin E, vitamin B1 and niacin, among others. These elements, in combination with the abundant polyunsaturated fatty acids naturally enriched with calcium and copper, make NLK™ a multiple function diet supplement rich in essential amino acids, digestive enzymes and peptides.

On the scientific front, results obtained during clinical studies conducted by independent Quebec University researchers and healthcare professionals prove, with a high level of certainty, that Neptune Krill Oil™ (NKO™) generates beneficial effects on several human conditions, including the following:

1. The effects of Neptune Krill Oil™ on skin cancer caused by UV radiation indicate that NKO™ can prevent skin damage caused by chronic exposure to UV rays.

2. The results of Neptune Krill Oil™ on the management of premenstrual syndrome (PMS) published in May 2003 in a highly rated medical research journal, the “Alternative Medicine Review”, demonstrate with a high level of certainty that NKO™ can significantly reduce the physical and emotional symptoms associated with PMS, and is also more effective in providing relief from dysmenorrhea (menstrual pain) than fish oil (Omega-3 18: 12).

3. The effects of Neptune Krill Oil™ on hyperlipidemia (high cholesterol & triglycerides) demonstrated, with a high level of certainty, that:

   - NKO™ is effective in the regulation of hyperlipidemia by significantly reducing overall cholesterol levels, LDL (bad cholesterol) and triglycerides while increasing the level of HDL (good cholesterol).

   - NKO™ (1.5 g/day) is more effective than fish oil in the regulation of hyperlipidemia by significantly reducing LDL levels.

Neptune continuously supports medical research into the health benefits of its products. It is of critical importance for Neptune to steadfastly pursue this scientific challenge and validate each of the compounds and components of its products. In doing so, the Company has, over the course of the 2003/2004 period, produce a conclusive clinical study on the benefits of its NKO™ product in relation to anti-inflammatory conditions, all while using a reduced dosage of 300 mg/day.

On the marketing front, the Company undertook several new strategic initiatives during the 2003/2004 period. It has increased its potential market by offering several new distributors the possibility of selling its NKO™ product as a new ingredient for different formulations containing other consumer-friendly products. This approach not only allows manufacturers and distributors to extend the lifecycle of their current products already known to consumers (through the addition of NKO™, which accentuates the health benefits of these products) but also for Neptune to take advantage of a customer base that is already aware of, and loyal to, a product readily available on the market. As a result, with new and innovative NKO™ based products differentiated at the content, application and pricing levels, Neptune is taking full advantage of newfound parallel distribution structures and the use of alternative sales approaches. What's more, the identification of these new NKO™ based formulations allows Neptune to meet its corporate requirements and policies: the Company strictly adheres to its commitment to maintain a minimal percentage of NKO™ within a new product; as well as the requirement that, among other restrictions, the protected NKO™ or NLK™ product logo, as the case may be, must be displayed on the product label.

During the 2003/2004 period, the Company's representatives continued to make presentations at the various tradeshows/conferences to which they participated and where they presented the Company's vision, its business plan, its products and their benefits, as well as the results of clinical studies.

Though somewhat limited in terms of financial and human resources, the Company, guided by its new marketing strategy and action plan, managed to meet the first quarter's forecasts. However, following an unexpected event, which caused certain problems with inventory, second quarter results were somewhat disappointing. In essence, the Company realized that, over a 3-month period, the softgels sold in bulk and manufactured by its 3 sub-contractors had leaked for no valid, precise or definitive reason. Although this issue did not affect the softgels that were bottled quickly, it did nonetheless slow down the prospecting and sales processes and, consequently, had a negative impact on Company's growth for a 6-month period. During this period, it was necessary to, on the one hand, determine the magnitude of the damages and identify the causes and their impacts on the issue and, on the other hand, to apply the necessary corrective measures. As a result of these unforeseen events, the Company was even required to halt production during the last few months of the reporting period. Although the situation was brought under control and all corrective measures were applied, this unforeseen event affected not only second quarter and fiscal year financial results but also had an impact on the working capital required for Company operation.

ACTION PLAN 2005

The Company, having resolved the defective softgels issue, and having adopted a "just in time" policy with regards to production in order to better synchronize production and inventory with sales and shipping, obtained financing during the first quarter of the 2005 fiscal year in order to ensure the continuation of production. During the first quarter of the 2005 fiscal year, the newly recapitalised Company received encouraging results, including higher than forecasted sales (not only overall but at the distributor level as well), indicating an increase in the level of consumer appreciation for its products and a trend towards accelerated market penetration. The results of the first quarter had an influence on the Company's decision to acquire the intellectual property being applied. Although the acquisition of this intellectual property is the subject of a litigation brought forth by University researchers and currently before the courts, the Company, in concert with Université de Sherbrooke, is proceeding with the exercising of its option to purchase the said intellectual property and will finalize all associated formalities in the short term.

The 2005 action plan will be comprised of the following:

- Acquire the necessary financial and human resources to achieve Company objectives, particularly where they relate to marketing. To this end, the Company recently obtained its latest round of financing and added 2 representatives to its sales force.

- Maintain the adopted marketing strategy for its products and for formulations containing its products as fundamental while prioritizing and promoting the signing of numerous new distributors in the nutraceutical market in North America, Europe and Asia.

- Improve plant productivity on a permanent basis and continuously adjust production and inventory levels to meet sales levels, helping to ensure not only unrivalled and continuous quality of its raw materials through the optimal management of its provisioning but also improved management of Company liquidities.

- Pursue the regulatory authorisation process allowing the Company to sell its products in other targeted countries in Europe and Asia.

- Maintain its protection policy relating to intellectual properties and complete the acquisition of the intellectual property currently being applied.

- Pursue the carrying out of new clinical studies in co-participation with other companies.

- Finalise various strategic alliance dossiers currently in negotiation.

2005 PERSPECTIVE

It remains that the Company's primary short-term objective is to reach the breakeven point on a monthly basis during the current fiscal year. Though the softgels issue significantly hampered our marketing efforts, the adopted strategy is paying dividends and our initiatives, in accordance with the new market development action plan, are producing the desired results. We are therefore confident that we will reach the sales and production levels required to achieve our objective of operational profitability.

The North American market is now being served by more than 20 distributors of our products in the nutraceuticals market; some of these organisations market to consumers through retailers, others use practitioners and multiple networks while others employ a direct approach using the Internet, catalogues, radio, television and/or infomercials, etc. Several other distributors use their extended networks to penetrate the North American, European and Asian markets.

Other highlights: all distributors are new and recent with regards to Neptune and its products and yet, as the orders grow, all are increasing their initial quantities and reducing the amount of time between orders; these represent strong indicators for the Company. Several distributors are making significant promotional investments and Neptune intends to support their efforts throughout the year. Improved penetration of the Asian and European markets is also an important part of the marketing initiatives targeted by our action plan.

In closing, we would like to take the time to acknowledge the defining role that the people play in the achievement of our sales and profitability objectives. To this end, and to increase the value of the Company for our partners and shareholders, Neptune can now rely on dedicated employees who have embraced the Company's mission and to whom we extend, along to our business partners, suppliers and investors, our heartfelt thanks and appreciation for their contributions, their support and their patience. We must constantly strive to prove that, in choosing Neptune, they made the right choice.

André Godin	Henri Harland	Michel Timperio
Vice-president, Operations	President and CEO	Council Chairman

EXECUTIVE ANALYSIS ON THE FINANCIAL SITUATION AND PRODUCTION RESULTS / EXECUTIVE COMMENTS AND ANALYSIS

This analysis is presented in order to provide the reader with an overview of the changes to the Neptune Technologies & Bioressources Inc. (“Neptune” or “the Company”) financial situation between May 31, 2003 and May 31, 2004. It also includes a comparison between the operation results, the treasury flow and the financial situation for the 12-month period ending May 31, 2004 and those from the previous fiscal year.

This analysis, completed on September 20, 2004, must be read in conjuncture with the Company’s audited consolidated financial statements at May 31, 2004 and presented in this annual report. Neptune financial statements were produced in accordance with Generally Accepted Accounting Principles (GAAP). Company results are published in Canadian dollars. All amounts appearing in this executive analysis are in Canadian dollars, unless indicated otherwise.

OVERVIEW

Neptune’s 2004 fiscal year was dedicated to the marketing of its products in North America. Neptune also deployed development initiatives in Asian and European markets. To accomplish this, the Company participated in various tradeshows in order to promote its products and maintain its level of excellence, established and developed since its foundation.

The Company maintained its clinical research initiatives. As a result, the Company can now take advantage of scientific results demonstrating the benefits of Neptune Krill Oil (NKO™) on various human conditions, such as those relating to skin cancer, premenstrual syndrome, elevated cholesterol levels and inflammation problems. Neptune is also pursuing clinical research aiming to demonstrate the benefits of NKO™ for people suffering from osteoarthritis and arteriosclerosis.

What’s more, since June 1, 2003, the Company is no longer considered to be in the start-up phase. The Company is therefore no longer capitalising its start-up costs and has begun writing down capitalised costs as at June 1, 2003.

During the second quarter of the 2004 fiscal year, and despite continued sales growth, the Company was forced to deal with certain difficulties relating to the return of damaged merchandise. Softgels manufactured by Neptune’s sub-contractors leaked; this affected large quantities of bulk NKO™ softgels. Neptune evaluated the various hypotheses that offered a possible explanation for the leakage problem and applied the appropriate corrective measures. This problem had a definite effect on the results from the last 3 quarters of the 2004 fiscal year, particularly on the last 2 quarters.

During the third quarter, the Company received its accreditation from the Canadian Food Inspection Agency for its Sherbrooke production facility, its Quality Management Program (QMP) and its compliance with HACCP standards. This accreditation is a prerequisite for exporting products such as krill to members of the European Community and to certain Asian countries.

The Company also hired 2 proven sales representatives in order to support its current marketing initiatives. These sales professionals contribute to the increase in marketing efforts and the closing of sales in the short term.

PRINCIPAL ANNUAL FINANCIAL INFORMATION

(In thousands of dollars, except per share data)

	2004	2003	2002
Sales Figures	2,262	-	-
EBITDA	(1,659)	(2,402)	(2,419)
Net Loss	3,534	3,335	2,550
Net Loss per Share and Diluted Loss per Share	0.161	0.213	0.173
Total Assets	7,922	9,134	6,368
Working Capital	98	1,132	1,272
Shareholder Equity	(1,659)	1,653	2,287
Book Value per Common Share	(0.076)	0.076	0.146
Long Term Financial Liabilities	7,696	5,985	1,956

Comments relative to the significant variations between the results over the last 3 fiscal years:

- The increase in the net loss for the 2003 fiscal year is due primarily to an increase in financing charges and marketing expenses.
- The increase in the net loss for the 2004 fiscal year is due in large part to the amortization following the completion of the start-up phase on June 1, 2003.

EARNINGS BEFORE INTEREST, TAXES AND DEPRECIATION OF ASSETS (EBITDA)

The 2004 fiscal year closed with an increase in Company EBITDA of $0,743M over the previous year. This increase was due primarily to the 12 months of marketing activities during the 2004 fiscal year, as compared to 6 months during the previous year.

NET LOSS

The Net Loss for the fiscal year ended May 31, 2004 reached $3,5M or $0.161 per share while the fiscal year ended May 31, 2003 generated a Net Loss of $2,4M or $0.213 per share.

PRINCIPAL QUARTERLY FINANCIAL DATA

(In thousands of dollars, except per share data)

Fiscal Year Ended May 31, 2004

	Total	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Sales Figures	2,262	643	956	602	61
EBITDA	(1,659)	(353)	(269)	(240)	(797)
Net Loss	3,534	799	744	717	1,274
Loss per Share	0.161	0.037	0.034	0.033	0.057

Fiscal Year Ended May 31, 2003

	Total	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
EBITDA	(2,402)	(653)	(982)	(265)	(502)
Net Loss	3,335	760	1,336	525	714
Loss per Share	0.213	0.049	0.085	0.034	0.045

The results of the fourth quarter of 2004 include an adjustment of approximately $360,000 following the return of merchandise sold in the previous quarters. Sales for the fourth quarter were initially set at $420,000 prior to the adjustment.

TREASURY FLOW AND FINANCIAL SITUATION

Operating Activities

In 2004, operating activities caused a reduction in liquidity of $2,6M compared with $2,1M for the same reporting period ended on May 31, 2003. The variation of $0,5M is primarily due to the variations in working capital elements from one year to the next. The variation in working capital elements for the 2004 fiscal year, in relation to the previous period, is primarily due to the increase in receivables $0,431M and inventory $0,323M during the 2004 reporting period. These increases in receivables and inventory are primarily due to the growth in sales for the 2004 period, as compared to the 2003 reporting period.

Financing Activities

During the fiscal year ended May 31, 2004, 2 important elements explain the substantial increase in liquidity generated by the financing activities: an increase of $0,750M in long-term debt and the issue of$1,250M in convertible debentures. These initiatives were required in order to improve the working capital situation. During the previous fiscal year, the financing activities had generated an increase of liquidity of $4,955M.

Investing Activities
The variation in investing activities related to acquisitions of fixed assets and intangible assets for a total of $0,243M.

Overall, taking the treasury flow into account, the Company reduced its cash by $0,982M for the 12-month period ended May 31, 2004.

Financial Situation
The following table details the important changes to the balance sheets at May 31, 2003 and May 31, 2004:

Accounts	**Increase (Reduction) (In thousands of dollars)**	**Comments**
Cash and financing receivable	(1,138)	See cash flow statement
Receivables	431	Directly linked to an increase of operation and sales activities
Inventory	323	Increase in inventory in order to support sales growth
Other assets	(406)	Amortisation of start-up costs
Long-term debt (including the short-term portion)	742	Loan of $0,750M less the net value of issued shares, plus the increase of leased items for $150,000
Convertible debenture	1,502	Addition of a $1M convertible debenture plus capitalised interest

PRIMARY ANNUAL FINANCIAL RATIOS

	2004	2003	2002
Working Capital Ratio	**1.05**	**1.76**	**1.60**
Solvency Ratio			
Debt Capital/Shareholder Equity*	1.31	0.65	0.15

* including convertible debentures

Most of the Company's financial ratios dropped off during the period ended May 31, 2004, as compared to the period ended May 31, 2003; this was caused by the operating deficit during the period and the financing required for the product marketing process. The ratios are expected to recover during the first quarter of 2005.

The Company's contractual obligations, including payments due during the next 5 reporting periods and the following ones, are presented in the following table:

		Required Payments per Period			
Contractual Obligations	**Total**	**Less than one period**	**2 to 3 periods**	**4 to 5 periods**	**More than 5 periods**
Long-term Debt	3,704,922	522,690	1,475,899	1,472,000	234,333
Loans guaranteed by investments in rental contracts *	250,817	127,150	114,002	9,665	-
Total liabilities	3,955,739	649,840	1,589,901	1,481,665	234,333

* including interest fees

Related Party Transactions
The transactions between related parties are described in note 6 "*Related Party Transactions"* of the Company's financial statements as at May 31, 2004.

Change in Accounting Policies
Changes in accounting policies are described in note 3 “Changes in Accounting Policies” ” included in the Company’s financial statements as at May 31, 2004.

Subsequent Events
On July 7, 2004, the Company issued 371,639 common shares at a price of $0.15 per share in order to settle certain amounts owing to administrators (in the amount of $40,746) and a creditor (in the amount of $15,000). On July 13, 2004, the Company completed private financing (in the amount of $655,184), following the issue of 3,275,922 units at a price of $0.20 each. Each unit includes a common share and a stock purchase warrant allowing the holder to obtain a common share at a price of $0.25 for a 24-month period.

RISK FACTORS

Financial Risks
Management intends to continue the careful management of risks relating to exports, foreign exchange, interest rates and sale prices for merchandise.

The majority of the Company’s accounts receivables are 90% guaranteed by insurers. All export sales are completed in American funds. The exchange rate risks incurred by the Company are, at present, limited to those relating to the American dollar. Due to the fact that Company’s raw materials are being purchased in American dollars and that the Company intends to maintain its matching policies, the Executive is not currently using financial instruments.

Product Liability
The Company acquires a $5M-liability insurance policy to cover civil liability relating to its products on a yearly basis. The Company also maintains a quality-assurance process that is PGO certified by the Canadian Food Inspection Agency (CFIA). In addition, the Company has begun implementing the initiatives required to receive *Good Manufacturing Practices* accreditation by Health Canada.

Prospective Statements
This Executive Analysis contains prospective information. Prospective statements include a certain amount of risk and uncertainty, and it is possible that the actual future results of the Company may differ somewhat from those predicted. These risks include: the growth in demand for Company products, seasonal variations in customer orders, changes in price and availability for raw materials and changes to economic conditions in Canada, the United-States and Europe, including variations in exchange and interest rates.

The Company based its analysis on the prospective statement information available at the time of drafting. The inclusion of this information should not be considered a declaration by the Company that the predicted results have been achieved.

Additional Information
Updated and additional Company information is available from the SEDAR Website at: http://www.sedar.com.

On September 20, 2004, the total number of common shares issued by the Company and in circulation was 25,594,805 and Company common shares were being traded on the TSX stock exchange in Toronto under the listing NTB.

Henri Harland
President and CEO

André Godin
Vice-president, Operations

EXECUTIVE REPORT RELATING TO FINANCIAL STATEMENTS

The financial statements for Neptune Technologies & Bioressources Inc. presented in this document are the responsibility of the Company Executive and were approved by its Board of Directors.

These financial statements were prepared by the Executive using Canadian Generally Accepted Accounting Principles. They contain amounts based on best guesses and estimates.

To ensure the accuracy and objectivity of data contained in the financial statements, the Company Executive acquired and implemented internal accounting control systems. The Executive believes that internal accounting controls provide reasonable assurance that: financial documents are reliable and provide an adequate basis for the formulation of financial statements, that business assets are properly accounted and preserved, and that the preparation and the presentation of other financial information are in concordance with the financial statements.

The Board of Directors assumes responsibility for financial statements primarily through its Audit Committee, comprised entirely of external administrators. The Audit Committee reviews the financial and annual statements as well as the Executive Analysis of the Company's Financial Situation and Production Results, and provides its recommendations to the Board of Directors for approval. The Audit Committee meets with the Executive as well as with external auditors to discuss the internal controls implemented on processes relating to the presentation of financial information, audit questions and financial information presentation questions and presents appropriate recommendations to the Board of Directors. Auditors assigned by shareholders may, at any time, meet with the Audit Committee, with or without the Executive in attendance.

Auditors assigned by the shareholders verified the current financial statements: the firm of Raymond Chabot Grant Thornton (RCGT), chartered accountants. Their report follows.

President and CEO, Vice-president, Operations,

Henri Harland André Godin

Laval
September 20, 2004

AUDITORS' REPORT

To the Shareholders of Neptune Technologies & Bioressources inc.

We have audited the consolidated balance sheets of Neptune Technologies & Bioressources inc. as at May 31, 2004 and 2003 and the consolidated statements of earnings, deficit, contributed surplus and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at May 31, 2004 and 2003 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Limited Liability Partnership
Chartered Accountants

Sherbrooke
August 31, 2004

CONSOLIDATED EARNINGS
YEARS ENDED MAY 31, 2004 AND 2003

	2004	2003
	$	$
Sales	**2,261,858**	
Cost of sales and operating expenses (before amortization)	**3,685,665**	1,606,359
Research expenses (Note 7)	**239,534**	820,138
Financial expenses (Note 8)	**910,727**	886,820
Amortization (Note 9)	**964,380**	46,077
	5,800,306	3,359,394
Loss before interest income	**3,538,448**	3,359,394
Interest income	**4,436**	24,543
Net loss	**3,534,012**	3,334,851
Basic and diluted loss per share	**0.161**	0.213
Weighted average number of shares outstanding	**21,885,043**	15,656,779

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED DEFICIT
CONSOLIDATED CONTRIBUTED SURPLUS
YEARS ENDED MAY 31, 2004 AND 2003

Consolidated deficit

	2004	2003
	$	$
Balance, beginning of year	**8,660,371**	5,159,563
Net loss	**3,534,012**	3,334,851
Share issue expenses		165,957
Balance, end of year	**12,194,383**	8,660,371

Consolidated Contributed Surplus

	2004	2003
	$	$
Balance, beginning of year	**4,005**	
Expired warrants	**27,211**	4,005
Stock-based compensation – employees	**54,338**	
Stock-based compensation – non-employees	**102,200**	
Balance, end of year	**187,754**	4,005

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED CASH FLOWS
YEARS ENDED MAY 31, 2004 AND 2003

	2004	2003
	$	$
OPERATING ACTIVITIES		
Net loss	**(3,534,012)**	(3,334,851)
Non-cash items		
Amortization	**987,683**	54,761
Financial expenses	**549,569**	524,374
Stock-based compensation - employees	**54,338**	
Changes in working capital items (Note 10)	**(627,511)**	647,262
Cash flows from operating activities	**(2,569,933)**	(2,108,454)
INVESTING ACTIVITIES		
Banker's acceptance		116,627
Property and equipment	**(114,984)**	(2,164,005)
Intangible assets	**(129,618)**	
Other assets	**(26,945)**	(1,139,591)
Cash flows from investing activities	**(271,547)**	(3,186,969)
FINANCING ACTIVITIES		
Bank loan		(437,000)
Demand note		1,000,000
Long-term loans	**750,000**	2,370,660
Repayment of long-term debt	**(140,157)**	(131,843)
Issue of convertible debentures	**1,250,000**	750,000
Issue of capital stock		1,000,000
Share issue expenses		(165,957)
Cash flows from financing activities	**1,859,843**	4,385,860
Net decrease in cash and cash equivalents	**(981,637)**	(909,563)
Cash and cash equivalents, beginning of year	**934,997**	1,844,560
Cash and cash equivalents, end of year	**(46,640)**	934,997

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED BALANCE SHEETS
MAY 31, 2004 AND 2003

	2004	2003
	$	$
ASSETS		
Current assets		
Cash		934,997
Financing receivable		250,000
Accounts receivable	**585,558**	154,933
Research tax credits receivable	**87,638**	274,576
Inventories (Note 11)	**1,247,782**	924,629
Prepaid expenses	**60,837**	89,003
	1,981,815	2,628,138
Property and equipment (Note 12)	**4,425,784**	4,713,829
Intangible assets (Note 13)	**486,367**	358,941
Other assets (Note 14)	**1,027,622**	1,433,179
	7,921,588	9,134,087
LIABILITIES		
Current liabilities		
Bank overdraft	**46,640**	
Accounts payable and accrued liabilities		
Company controlled by an officer and director	**29,445**	40,346
Directors	**42,000**	41,000
Others	**1,127,007**	1,308,143
Instalments on long-term debt	**639,121**	106,643
	1,884,213	1,496,132
LONG-TERM DEBT *(Note 15)*	**3,151,258**	2,942,222
LIABILITY COMPONENT OF CONVERTIBLE DEBENTURES *(Note 16)*	**4,544,797**	3,043,030
	9,580,268	7,481,384
SHAREHOLDERS' EQUITY (DEFICIENCY)		
Capital stock and warrants (Note 17)	**10,347,949**	10,309,069
Contributed surplus	**187,754**	4,005
Deficit	**(12,194,383)**	(8,660,371)
	(1,658,680)	1,652,703
	7,921,588	9,134,087

The accompanying notes are an integral part of the consolidated financial statements.

On behalf of the Board,

Henri Harland
President and Director

Michel Timperio
Director

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MAY 31, 2004 AND 2003

1 - GOVERNING STATUTES AND NATURE OF OPERATIONS

The Company was incorporated under Part IA of the Companies Act (Québec) on October 9, 1998. The Company focuses on research and development of products derived from marine biomasses for the nutraceutical, pharmaceutical and cosmetic industries. Starting June 1, 2003, the Company is no longer considered as a development stage company. The Company no longer accumulates its start-up costs and has begun amortizing capitalized costs as of June 1, 2003.

2 - GOING-CONCERN

The Company has incurred losses from operations for the years ended May 31, 2004 and 2003 resulting in a decrease of its cash, working capital and shareholders' equity. The Company is working to finance its industrial, commercial, research and development activities.

The Company's ability to generate operating income and positive cash flows from operating activities in the future is dependent upon any combination of the following: its products acceptance on the market, the competition level the Company will face and the overall economic situation.

The financial statements have been prepared on the going concern basis, which assumes the realization of assets and the satisfaction of liabilities in the normal course of business. These financial statements do not include any adjustments to the carrying value or classification of assets and liabilities, nor to the results of operations, should the Company not continue to operate as a going concern.

Management is of the opinion that sufficient funds will be available from operations and external financing to meet the Company's liabilities and commitments as they become due.

3 - CHANGES IN ACCOUNTING POLICIES

Handbook Section 3870 - Stock-based compensation and other stock-based payments
On June 1, 2002, the Company adopted prospectively the recommendations of the Canadian Institute of Chartered Accountants Handbook, Section 3870, entitled *Stock-based Compensation and Other Stock-based Payments*. This Section defines recognition, measurement and disclosure standards for stock-based compensation to non-employees and employees. Under these new standards, all stock-based payments granted to non-employees must be systematically accounted for in the Company's financial statements. These standards define a fair value-based method of accounting and were encouraging entities to adopt this method of accounting for its stock-based employee compensation plans. 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 did not adopt the fair value method of accounting for its awards granted to employees was required to include in its financial statements pro forma disclosures of net income as if the fair value method of accounting had been applied. The Company had chosen the latter alternative treatment.

In November 2003, the recommendations of the Canadian Institute of Chartered Accountants, Section 3870, have been modified in order to oblige the application of a fair value based method of accounting for all stock-based payments, including stock-options, for all years starting on or after January 1st, 2004. The Company has decided to adopt, on a retroactive basis starting June 1st, 2003, the application of these new standards without restating the financial statements for previous years. The application of these recommendations has resulted in a charge of $54,338 for the year ended May 31, 2004.

Handbook Section 1100 - Generally accepted accounting principles
In July 2003, the Canadian Institute of Chartered Accountants issued Section 1100, *Generally Accepted Accounting Principles*, and Section 1400, *General Standards for Financial Statement Presentation*, which are effective for years beginning on or after October 1, 2003. Section 1100 clarifies the relative authority of various accounting pronouncements and other sources of guidance within GAAP, whereas Section 1400 clarifies what constitutes a fair presentation in accordance with GAAP. In addition, under Section 1100, industry practice no longer plays a role in establishing GAAP. The Company anticipates that this standard will not have any incidence on the financial position or results of operations of the Company.

3 - CHANGES IN ACCOUNTING POLICIES (continued)

Handbook Section 3063 - Impairment of long-lived assets

Effective June 1, 2003, the Company adopted the recommendations of the Canadian Institute of Chartered Accountants Section 3063, *Impairment of Long-lived Assets*. This section defines recognition, measurement and disclosure of the impairment of non-monetary long-lived assets, including property, plant and equipment and intangible assets with finite useful lives. Under the new standards, impairment of long-lived assets is recognized when the undiscounted cash flows expected from use and eventual disposition of the asset are less than their carrying amount. In such situations, the asset is measured at its fair value. The adoption by the Company of the new standard did not have any effect on its results, financial position nor cash flows.

Accounting Guideline no 14 (AcG-14) - Disclosure of guarantees

On February 2003, the Canadian Institute of Chartered Accountants issued Accounting Guideline no 14, *Disclosure of Guarantees* (AcG-14), which clarifies disclosure requirements for certain guarantees. The Company adopted the new recommendations effective June 1, 2003. These new recommendations have no significant effect on the 2004 financial statements.

4 - ACCOUNTING POLICIES

Principles of consolidation

The consolidated financial statements include the accounts of the Company and its subsidiary, 9113-0310 Québec inc., created February 1, 2002. This subsidiary has been inactive since its inception.

Revenue recognition

Revenues from operations are recognized when the following conditions are met: goods are shipped, persuasive evidence of an agreement exists, risks and advantages related to a good property are transferred, considerations are fixed or when reasonable assurance regarding measurement exists and collectibility of the considerations exists. The revenues received in advance are deferred and recognized in operations when goods are delivered to customers.

Accounting estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the recorded amount of assets and liabilities and the reported amount of contingent assets and liabilities at the date of the financial statements and the recorded amounts of income and expenses during the year. Actual results may differ from those estimates.

Cash and cash equivalents

The Company's policy is to present cash (bank overdraft) and temporary investments having a term of three months or less from the acquisition date with cash and cash equivalents.

Inventories

Raw materials are valued at the lower of cost and replacement cost, cost being determined by the average cost method. Finished goods are valued at the lower of cost and net realizable value; cost is determined by the standard cost method.

4 - ACCOUNTING POLICIES (continued)

Property and equipment
Property and equipment are recorded at cost and amortized over their estimated useful lives according to the following methods and annual rates:

	Method	Rates
Furniture and fixtures	Diminishing balance	20 %
Office equipment	Diminishing balance	30 %
Processing equipment	Straight-line	10 %
Laboratory equipment	Straight-line	20 %
Computer equipment	Straight-line	30 %
Software	Straight-line	50 %
Leasehold improvements	Straight-line	10 %

Property and equipment related to the processing of products derived from marine biomasses (processing equipment, laboratory equipment and leasehold improvements) are amortized beginning at the start of commercial operations on June 1, 2003.

Research and development expenses
Research expenses are charged to earnings as incurred. Development expenses that satisfy generally recognized conditions, including reasonable certainty that they will be recovered, are deferred and amortized.

Investment tax credits relating to eligible research and development expenses are applied against these expenses in the year they are incurred.

Intangible assets
Patents and licences are recorded at cost and amortized according to the straight-line method over their remaining expected life and a ten-year period respectively, beginning at the start of commercial operations on June 1, 2003.

Trademarks are recorded at cost and not amortized since the Company considers they have an unlimited life given they can be renewed at low costs. They are tested for impairment annually, or more frequently if events or changes in circumstances indicate that they are impaired. The impairment test consists of a comparison of the fair value of trademarks with their carrying amount. When the carrying amount exceeds the fair value, an impairment loss is recognized in an amount equal to the excess.

Other assets
Start-up costs are amortized according to the straight-line method over a three-year period beginning at the start of commercial operations on June 1, 2003. Sales realized during the start-up period were deducted from start-up costs.

Deferred financing costs are amortized according to the straight-line method over periods of five to seven years, up until 2009.

Foreign currency translation
Monetary assets and liabilities in foreign currency are translated at the exchange rate in effect at the balance sheet date. Revenue and expenses in foreign currency are translated at the average rate in effect during the year. Gains and losses are included in earnings for the years.

Share issue expenses
Share issue expenses were added to the deficit.

Loss per share
The loss per common share is calculated on the weighted average number of shares outstanding during the year. The convertible debentures, warrants and stock options described in Notes 16, 17 and 18 were not included in the calculation of diluted earnings per share because of their anti-dilutive effect in the years presented.

4 - ACCOUNTING POLICIES (continued)

Stock-based compensation plan

The Company offers a stock-based compensation plan, which is described in Note 18. Since June 1, 2003, the Company accounts for stock options granted to employees based on dates when the options can be exercised. Any consideration received upon the exercise of options by holders is credited to capital stock. If stock options are repurchased from employees, the excess of the consideration paid over the carrying amount of the cancelled stock option is added to the deficit.

Income taxes

The Company uses the liability method of accounting for income taxes. Under this method, future income tax assets and liabilities are determined according to differences between the carrying amounts and the tax bases of assets and liabilities. They are measured by applying enacted or substantively enacted tax rates and laws at the date of the financial statements for the years in which the temporary differences are expected to reverse. The Company records a valuation allowance for future income tax assets if, based on available information, it is more likely than not that some or all of the future income tax assets will not be realized.

5 - FINANCING AND REORGANIZATION OF THE FINANCIAL POSITION, WHICH OCCURRED DURING THE YEAR ENDED MAY 31, 2003

On May 30, 2003, the Company concluded an agreement with many of its creditors. The amount due to these creditors on May 30, 2003 totalled $1,898,355. Of this sum, an amount of $697,893 was settled by the issue of 1,292,395 common shares at $0.54 per share, an amount of $95,000 was negotiated for long-term reimbursement terms varying from June 2004 to September 2005, credit notes were issued for an amount of $169,884 and the balance of $935,578 was paid in cash.

As part of this financial position reorganization, which took place May 30, 2003, the conversion terms of the $1,500,000 unsecured debenture issued January 28, 2002 were modified. This debenture had a conversion obligation at fixed maturity dates. The new terms confer the holder the right to convert at his convenience, at any time prior to maturity date, all or part of the capital and interest into common shares at a price per share equal to the highest between $1 per share and the market price at the conversion date.

On July 23, 2002, the Company borrowed $1,000,000 by way of a 15% interest bearing demand note, maturing May 30, 2003. At that time, the Company issued 100,000 warrants allowing the purchase of 100,000 common shares of the Company at $1 per share up until July 23, 2003. On May 30, 2003, this note was settled by the issue of 2,324,140 common shares at $0.4303 per share.

During the year ended May 31, 2003, the Company borrowed $1,000,000 in instalments of $250,000 (of which the last payment was received in June 2003), by way of 15% interest bearing notes, plus a 25% risk premium. On May 30, 2003, the capital, accrued interest and risk premium were settled by the issue of a $1,261,780 secured convertible debenture, bearing interest at 15% and maturing May 30, 2008.

On May 30, 2003, the Company negotiated a $1,500,000 mortgage loan (of which $750,000 were received on May 30, 2003, $591,114 on September 3, 2003 and $158,886 on January 22, 2004). This loan secured by a hypothec on the universality of property, bears interest at the weekly variable rate determined by the lender plus 2% and is payable up until May 2009. In consideration of this loan, the Company granted the lender 366,569 common shares, of which 183,285 were issued upon receipt of the first $750,000 instalment. The remaining 183,284 common shares were issued upon receipt of the second part of the loan, that is 144,456 and 38,828 common shares on September 3, 2003 and January 22, 2004, respectively. These shares have been issued at a price of $0.4303, $0.35 and $0.40 per share respectively.

On May 30, 2003, as part of a private financing, the Company accepted a $2,000,000 financing offer. Phase I of this financing was concluded by the issue, on May 30, 2003, of 2,324,140 common shares at $0.4303 per share for $1,000,000 in cash. The Company also issued 250,000 warrants allowing the holder to purchase 250,000 common shares at a price of $0.54 per share. These warrants have a 24-month term following the issuance date. Phase II of the financing was concluded by a $1,000,000 unsecured debenture bearing interest at the rate of 15% and maturing 60 months following the issuance date. This debenture is convertible at market value at the holder's option.

6 - RELATED PARTY TRANSACTIONS

In virtue of a service agreement with a shareholder (a company controlled by an officer and director), the Company paid monthly service fees of $5,000 ($10,000 prior to January 2003). A monthly amount of $2,000 was deducted for the use of the Company's premises by this shareholder from June 2002 to December 2002. During the year, total fees amounted to $5,000 ($81,000 in 2003). The $5,000 consists of $2,500 in management fees and $2,500 in research fees. As at May 31, 2004, no balance is due to this shareholder ($34,202 in 2003, including taxes). This amount is shown on the balance sheet under accounts payable and accrued liabilities. This agreement ended July 1, 2003.

The Company also entered into an agreement with this shareholder, as of June 1, 2002, calling royalties to be paid in semi-annual instalments of 1% of net annual sales, for an unlimited period. The amount paid cannot exceed net earnings before interest, taxes and amortization. For the current year, total royalties amount to $23,301 ($6,144 in 2003). As at May 31, 2004, the balance due to this shareholder amounts to $29,445 ($6,144 in 2003). This amount is shown on the balance sheet 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.

7 - 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 granted the Company a licensing option on the results of the research agreement applicable to seals and other marine mammals, as well as a purchase option on the intellectual property.

The Company granted a contract to the Centre de recherche industrielle du Québec (CRIQ) for the scaling up of its krill oil extraction process. This process was developed in a Canadian university laboratory.

The Company also carries out medical research. The five projects included in the applied research portfolio relate to the following: cardiovascular diseases, neoplastic diseases, rheumatoid arthritis, face wrinkles and transdermal transport.

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

	2004	2003
	$	$
Service fees (Note 6)	**2,500**	47,500
Salaries and employee benefits	**296,135**	636,833
Subcontracting	**95,209**	489,789
General and study expenses	**1,554**	
Travel and entertainment expenses	**695**	13,364
	396,093	1,187,486
Research tax credits	**(156,559)**	(367,348)
Research expenses	**239,534**	820,138

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

8 - FINANCIAL EXPENSES

	2004	2003
	$	$
Bank charges and contracts	**7,616**	135,385
Interest - short-term loans	**571**	294,981
Interest - long-term debt	**377,470**	222,770
Interest – liability component of convertible debentures	**501,767**	225,000
Amortization - deferred financing contract	**23,303**	8,684
	910,727	886,820

9 - INFORMATION INCLUDED IN THE STATEMENT OF EARNINGS

	2004	2003
	$	$
Amortization		
Property and equipment	**552, 989**	46,077
Intangible assets	**2,192**	
Other assets	**409,199**	
	964,380	46,077

10 - INFORMATION INCLUDED IN THE STATEMENT OF CASH FLOWS

The changes in working capital items are detailed as follows:

	2004	2003
	$	$
Accounts receivable	**(430,625)**	229,522
Research tax credits receivable	**186,938**	644,335
Inventories	**(323,153)**	(817,699)
Prepaid expenses	**28,166**	(63,855)
Accounts payable and accrued liabilities	**(88,837)**	654,959
	(627,511)	647,262
Interest paid on operating activities	**337,911**	220,079

11 - INVENTORIES

	2004	2003
	$	$
Raw materials	**35,398**	202,168
Finished goods	**1,212,384**	722,461
	1,247,782	924,629

12 - PROPERTY AND EQUIPMENT

			2004
	Cost	**Accumulated amortization**	**Net**
	$	**$**	**$**
Furniture and fixtures	**98,230**	**44,041**	**54,189**
Office equipment	**65,642**	**29,299**	**36,343**
Processing equipment	**3,506,418**	**340,899**	**3,165,519**
Laboratory equipment	**100,589**	**20,117**	**80,472**
Computer equipment	**66,842**	**40,211**	**26,631**
Software	**2,350**	**2,350**	
Leasehold improvements - head office	**52,149**	**29,504**	**22,645**
Leasehold improvements - processing	**741,652**	**74,165**	**667,487**
	4,633,872	**580,586**	**4,053,286**
Assets under capital leases			
Processing equipment	**139,960**	**13,003**	**126,957**
Laboratory equipment	**296,241**	**50,700**	**245,541**
	5,070,073	**644,289**	**4,425,784**

During the year, the Company acquired processing and laboratory equipment for a total cost of $149,960 ($286,241 in 2003) by way of capital leases.

			2003
	Cost	Accumulated amortization	Net
	$	$	$
Furniture and fixtures	98,230	30,492	67,738
Office equipment	64,207	14,039	50,168
Processing equipment	3,399,267		3,399,267
Laboratory equipment	100,589		100,589
Computer equipment	60,444	21,002	39,442
Software	2,350	1,478	872
Leasehold improvements - head office	52,149	24,289	27,860
Leasehold improvements - processing	741,652		741,652
	4,518,888	91,300	4,427,588
Assets under capital leases			
Processing equipment	110,000		110,000
Laboratory equipment	176,241		176,241
	4,805,129	91,300	4,713,829

13 - INTANGIBLE ASSETS

			2004
	Cost	**Accumulated amortization**	**Net**
	$	**$**	**$**
Amortized intangible assets			
Patents	**463,872**	**1,442**	**462,430**
Licence	**7,500**	**750**	**6,750**
	471,372	**2,192**	**469,180**
Unamortized intangible assets			
Trademarks	**17,187**		**17,187**
	488,559	**2,192**	**486,367**

			2003
	Cost	Accumulated amortization	Net
	$	$	$
Amortized intangible assets			
Patents	351,441		351,441
Licence	7,500		7,500
	358,941		358,941

14 - OTHERS ASSETS

	2004	2003
	$	$
Start-up costs		
Balance, beginning of year	**1,227,595**	405,771
Cost of sales		789,957
Other costs		646,310
Sales of products		(614,443)
Amortization	**(409,199)**	
Balance, end of year	**818,396**	1,227,595
Deferred financing costs, at amortized cost	**109,226**	105,584
Deposit (*)	**100,000**	100,000
	1,027,622	1,433,179

(*) This deposit will be applied in reduction of the exercise of the plant purchase option or as partial payment of plant rearrangement costs if the purchase option is not exercised.

15 - LONG-TERM DEBT

	2004	2003
	$	$
Mortgage loan, $1,200,000 par value, secured by processing and laboratory equipment having an amortized cost of $3,245,991 in 2004, prime rate plus 6.25% (6.00% in 2003), payable in monthly capital instalments of $20,000, with a moratorium up until September 2004, maturing in June 2009 [a]	**1,140,000**	1,140,000
Mortgage loan, $980,000 par value less the net value of series "E" warrants, secured by the universality of property, weekly variable interest rate determined by the lender plus 1.25% (1.00% in 2003), payable in 60 monthly capital instalments of $16,333 beginning in January 2005, maturing in December 2009 [a] [b]	**941,623**	928,335
Mortgage loan, $1,500,000 par value less the net value of the issued shares, secured by the universality of property, weekly variable interest rate determined by the lender plus 2.25% (2.00% in 2003), payable in 60 monthly capital instalments of $25,000 beginning in October 2004, maturing in September 2009 [a] [c]	**1,389,555**	671,132
9% unsecured loan, payable in monthly blended instalments of $993, maturing in September 2005	**14,922**	25,000
Unsecured loan, without interest, maturing in June 2004	**70,000**	70,000
Obligations under capital leases, interest rates varying from 0.00% to 12.67% (9.25% to 12.67% in 2003), payable in monthly instalments of $13,188, maturing at different dates up until September 2008	**234,279**	214,398
	3,790,379	3,048,865
Instalments due within one year	**639,121**	106,643
	3,151,258	2,942,222

[a] Under these mortgage loans, the Company is required to respect certain ratios. As at May 31, 2004, the Company is not in compliance with these requirements. Subsequent to year-end, the Company obtained a waiver from the creditors for non-compliance with the requirements.

[b] The Company has determined, using the Black-Scholes model, a value of $62,049 for the warrants and recorded this amount in the shareholders' equity.

[c] The Company has retained the following values to record to shareholder's equity the 366,569 common shares issued without consideration.

	Value per share	Number of issued common shares
May 31, 2003	$0.4303	183,285
September 3, 2003	$0.3500	144,456
January 22, 2004	$0.4000	38,828

The mortgage loan was reduced by an amount of $144,959, corresponding to the value of these common shares.

15 - LONG-TERM DEBT (continued)

The instalments on long-term debt during the next five years are detailed as follows :

	Obligations under capital leases	Other long-term loans
	$	$
2005	127,150	522,690
2006	75,957	739,899
2007	38,045	736,000
2008	7,241	736,000
2009	2,424	736,000
Total minimum lease payments	250,817	
Interest expense included in minimum lease payments	16,538	
	234,279	

16 - LIABILITY COMPONENT OF CONVERTIBLE DEBENTURES

	2004	2003
	$	$
Unsecured convertible debenture [a] [d] [e]	**2,006,250**	1,781,250
Secured convertible debenture [b] [d] [e]	**1,451,047**	1,261,780
Unsecured convertible debenture [c] [e]	**1,087,500**	
	4,544,797	3,043,030

[a] This debenture, having a $1,500,000 par value and bearing interest at 15%, is convertible into common shares at any time at the holder's option, in all or in part, capital and interest, at a price per share equal to the highest of $1 and the market value at the conversion date.

The Company is allowed to reimburse any unconverted amount of the debenture, between December 28, 2004 and January 23, 2005, capital and interest, plus a premium equal to 10% of the unconverted capital amount. The reimbursement amount will bear interest at 12% annually and will be payable in twelve monthly instalments, equal and consecutive, starting February 23, 2005.

The issuer will convert any and all balance of the debenture, which is not converted, redeemed nor cancelled, between January 23, 2005 and January 28, 2005 inclusively, including interest, at a conversion price equal to the average closing price of the Company's shares on the main exchange market where they will then be traded, subject to a minimum conversion price of $0.10 per share.

[b] This debenture, having a $1,261,780 par value and bearing interest at 15% compounded annually, is convertible into common shares at any time at the holder's option, in all or in part, capital and interest, at a price per share equal to the highest of $0.75 and the market price at the conversion date.

The Company is allowed to reimburse the debenture in all or in part at any time prior to May 30, 2008, at which date the debenture and interest will become due.

This debenture is secured by a movable hypothec without delivery on the intellectual property rights, present and future.

[c] This debenture, having a $1,000,000 par value and bearing interest at 15%, is convertible into common shares at any time at the holder's option, capital and interest, at a price per share equal to the highest of $0.35 and the market value at the conversion date.

16 - LIABILITY COMPONENT OF CONVERTIBLE DEBENTURES (continued)

The Company is allowed to reimburse the debenture in all or in part at any time prior to October 28, 2008, at which date the debenture and interest will become payable. In the event of an advanced reimbursement, the holder will have a 30-day period to convert or not the part of the debenture and accrued interest related to the advanced redemption. If the advanced reimbursement occurs before October 20, 2005, a compensation of 30% of the capital related to the redemption, less accrued interest on this capital calculated at the redemption date, will be added to the capital related to the redemption.

[d] The payment of these debentures is subordinated to the full payment of the $1,500,000 authorized mortgage loan.

[e] Under the provisions of Section 3860 of the Canadian Institute of Chartered Accountants Handbook, these debentures are financial instruments which comprise a liability component and an equity component. Because the conversion price of these convertible debentures is calculated using the market value of the shares, no value was attributed to the equity component of these hybrid financial instruments.

17 - CAPITAL STOCK AND WARRANTS

Authorized
Unlimited number of shares without par value
Common shares

Preferred shares, issuable in series, rights, privileges and restrictions determined at time of issuance

Series "A" preferred shares, non-voting, non-participating, fixed, preferential and non-cumulative dividend of 5% of paid-up capital, exchangeable at the holder's option under certain conditions into common shares from the first listing of the common shares on a recognized stock exchange

	2004	2003
	$	$
Issued and fully paid		
21,947,244 common shares (21,763,960 common shares in 2003)	**10,285,899**	10,219,808
- series "A" warrants (4,050,000 warrants in 2002) [a]		
- series "B" warrants (1,000,000 warrants in 2002) [b]		
- series "C" warrants (2,490,000 warrants in 2002) [c]		
- series "D" warrants (100,000 warrants in 2003) [d]		1
196,000 series "E" warrants « E » [e]	**62,049**	62,049
- series "F" warrants (100 000 warrants in 2003) [f]		27,210
250,000 series "G" warrants [g]	**1**	1
	62,050	89,261
	10,347,949	10,309,069

17 - CAPITAL STOCK AND WARRANTS (continued)

During the past two years, changes in the Company's issued capital stock were as follows:

	Number of shares	Consideration
		$
Common shares		
Balance as at May 31, 2002	15,640,000	7,443,048
Issued in consideration of a debt settlement	1,292,395	697,893
Issued in consideration of a demand note settlement	2,324,140	1,000,000
Issued upon the first instalment receipt of the $1,500,000 authorized mortgage loan	183,285	78,868
Issued for cash	2,324,140	999,999
Balance as at May 31, 2003	21,763,960	10,219,808
Issued upon the last instalment receipt of the $1,500,000 authorized mortgage loan	183,284	66,091
Balance as at May 31, 2004	21,947,244	10,285,899

[a] Series "A" warrants entitling the holder to purchase one common share at 150% of the first public issuance price expired November 30, 2002. The expired 4,050,000 warrants were cancelled.

[b] Series "B" warrants entitling the holder to purchase one common share at 150% of the first public issuance price expired November 30, 2002. The expired 1,000,000 warrants were cancelled.

[c] On July 5, 2001, as part of the initial public offering, the Company issued 2,490,000 series "C" warrants. The series "C" warrants entitle their holder to purchase one common share at $1.50 each, at any time up until July 28, 2002. The expired 2,490,000 warrants were cancelled. *

[d] On January 28, 2002, the Company issued 100,000 series "D" warrants. The series "D" warrants entitle their holder to purchase one common share at $1 each. The expiration date for the exercise of the warrants is January 28, 2004. The expired 100,000 warrants were cancelled. *

[e] On June 3, 2002, as part of a $980,000 mortgage financing, the Company granted 196,000 series "E" warrants, for which the value has been established at $62,049 according to the Black-Scholes model. The Company chose to determine the value of the warrants by using the following assumptions:

i) Fair value of the common shares at $0.75
ii) Exercise price of $1.00
iii) Risk-free interest rate of 4.20%
iv) Estimated life of two years
v) Expected volatility of 90%

The series "E" warrants entitle their holder to purchase one common share at $1 each, at any time up until June 3, 2004.

[f] On July 23, 2002, as part of a $1,000,000 short-term financing, the Company granted 100,000 series "F" warrants, for which the value has been established at $27,210 according to the Black-Scholes model. The Company chose to determine the value of the warrants by using the following assumptions:

i) Fair value of the common shares at $0.87
ii) Exercise price of $1.00
iii) Risk-free interest rate of 3.20%
iv) Estimated life of one year
v) Expected volatility of 90%

The series "F" warrants entitle their holder to purchase one common share at $1 each, at any time up until July 23, 2003. The expired 100,000 warrants were cancelled.

17 - CAPITAL STOCK AND WARRANTS (continued)

(g) On May 30, 2003, the Company granted 250,000 series "G" warrants upon the issue of 2,324,140 common shares for a $1,000,000 cash consideration. The total proceeds from this issue were attributed to the common shares less a $1 par value for the warrants. The series "G" warrants entitle their holder to purchase one common share at $0.54 each. The maturity date for the exercise of warrants is May 30, 2005. *

* Given the inherent subjectivity of evaluating the warrants, the Company deemed it preferable to attribute a par value of $1 to the warrants and to attribute the full amount of the proceeds of issuance to the issued share classes.

18 - STOCK-BASED COMPENSATION PLAN

The Company introduced a stock-based compensation plan for its directors, managers, employees and consultants.

The plan provides for the granting of common share options. The purchase price of the shares covered by the stock options granted under the plan is the closing price of the common shares listed on the Canadian Venture Exchange Inc. (CDNX) on the eve of the grant. Under this plan, 4,350,000 common shares (2,265,000 common shares as at May 31, 2003) have been reserved for issuance. The terms and conditions for acquiring and exercising options are set by the Board of Directors, as is the term of the options which, however, cannot be more than five years or any other shorter period as specified in the regulations of the plan. The total number of shares issued to a single person cannot exceed 5% of the Company's total issued and outstanding common shares, with the maximum being 2% for each consultant.

Options granted prior to the date of the initial public offering entitle each holder to purchase: (i) from the time they are granted, 50% of the common shares subject to options granted to said holder (ii) as of the end of one year following the granting of the options, 25% of the common shares subject to options initially granted to said holder, and (iii) as of the end of two years following the granting of the options, 25% of the common shares subject to options initially granted to said holder, and at the price specified in the initial public offering. The plan provides that options issued after the initial public offering can be exercised on the basis of 25% per year following the date of the grant.

Activities within the plan are detailed as follows:

		2004		2003
	Number of options	**Weighted average exercise price**	Number of options	Weighted average exercise price
		$		$
Options outstanding, beginning of year	**1,260,000**	**1.00**	1,426,000	1.00
Attributed	**1,260,000**	**0.75**	–	–
Exercised	**–**	**–**	–	–
Cancelled	**(240,000)**	**0.88**	(166,000)	1.00
Options outstanding, end of year	**2,280,000**	**0.88**	1,260,000	1.00
Exercisable options as at May 31	**1,540,000**	**0.94**	1,202,500	1.00

18 - STOCK-BASED COMPENSATION PLAN (continued)

					2004
	Options outstanding			**Exercisable options**	
	Weighted average exercise price	**Weighted remaining contractual life outstanding**	**Number of options outstanding as at May 31, 2004**	**Number of options exercisable as at May 31, 2004**	**Weighted average exercise price**
	$				**$**
	1.00	**2.03 years**	**1,140,000**	**1,140,000**	**1.00**
	0.75	**4.14 years**	**1,140,000**	**400,000**	**0.75**
	0.88	**3.09 years**	**2,280,000**	**1,540,000**	**0.94**

On June 1, 2003, the Company granted 270,000 stock options to employees and 400,000 to non-employees at an exercise price of $0.75 per share. The fair value of each granted option has been estimated according to the Black-Scholes model and using the following assumptions:

	Employees	Non-employees
i) Fair value of the common shares	$0.34	$0.34
ii) Risk-free interest rate	3.85 %	3.85 %
iii) Estimated life	4 years	5 years
iv) Expected volatility	118 %	118 %

The fair value of the options granted to employees and non-employees is $0.2310 and $0.2555 per option respectively.

On August 28, 2003, the Company granted 340,000 stock options to employees at an exercise price of $0.75 per share. The fair value of each granted option has been estimated according to the Black-Scholes model and using the following assumptions:

i) Fair value of the common shares at $0.47
ii) Risk-free interest rate of 4.18%
iii) Estimated life of four years
iv) Expected volatility of 106%

The fair value of the options granted is $0.3130 per option.

On October 30, 2003, the Company granted 250,000 stock options to employees and non-employees at an exercise price of $0.75 per share. The fair value of each granted option has been estimated according to the Black-Scholes model and using the following assumptions:

i) Fair value of the common shares at $0.44
ii) Risk-free interest rate of 4.04%
iii) Estimated life of four years and a half
iv) Expected volatility of 106%

The fair value of the options granted is $0.3041 per option.

During the year ended May 31, 2004, a $54,338 charge representing employees' acquired rights during the year was recorded to expenses as compensation. The 400,000 options granted to non-employees representing a $102,200 charge related to past services, was recorded to earnings of the year ended May 31, 2003 in consideration of the liability recognition.

19 - INCOME TAXES

The variance between the statutory income tax rate (31.02% in 2004 and 2003) and the Company's effective income tax rate (nil for 2004 and 2003) for the years presented is mainly attributable to the valuation allowance related to the future net income tax assets.

Future net income tax assets of approximately $4,153,000 ($2,952,000 as at May 31, 2003) have not been reflected in these financial statements. These assets result primarily from unused non-capital losses and tax deductions resulting from expenses, which are recognized for accounting purposes but not deducted for tax purposes. These unused losses and tax deductions are available to reduce current income taxes in future years and are summarized as follows:

	2004	2003
	$	$
Future net income tax assets resulting from the following:		
Tax losses	**2,980,000**	2,163,000
Research and development expenses	**635,000**	580,000
Investment tax credits	**447,000**	374,000
Excess of the carrying amount of assets over their tax basis	**91,000**	(165,000)
	4,153,000	2,952,000
Valuation allowance	**(4,153,000)**	(2,952,000)
Future net income tax assets recognized	**–**	–

As at May 31, 2004, the Company's losses for tax purposes, which are available to reduce future years' income taxes amount to $11,751,861 for Federal purposes and $12,971,294 for Provincial purposes. The Company can avail itself of the tax benefit resulting from these loss carry-forwards as follows:

	Federal	Provincial
	$	$
2006	45,570	39,152
2007	78,967	78,967
2008	899,246	852,912
2009	2,389,847	2,334,216
2010	3,598,699	3,573,912
2011	2,644,475	2,606,465
	9,656,804	9,485,624
Research and development expenses which can be deferred over an indefinite period	2,095,057	3,485,670
	11,751,861	12,971,294

20 - FINANCIAL INSTRUMENTS

Credit risk

The Company consents credit to its customers in the normal course of business. On a continued basis, it performs credit evaluations related to its customers and maintains bad debt allowance provisions for potential losses. However, three main clients represent 75% of total trade accounts included in accounts receivable as at May 31, 2004.

Financial instruments

The carrying amount of the Company's short-term financial instruments approximates their fair value given that they will mature shortly.

The fair value of mortgage loans is equivalent to their carrying amount as the loans bear interest at a rate, which varies according to the market rate.

20 - FINANCIAL INSTRUMENTS (continued)

The fair value of unsecured loans, obligations under capital leases and liability component of convertible debentures is determined by discounting future cash flows using rates that the Company can use for loans with similar terms, conditions and maturity dates. The fair value is equivalent to the carrying amount.

21 - COMMITMENTS

The Company has entered into a licensing agreement, which calls for semi-annual payments of royalties based on the net realized sales of licensed products for the term of the patents, according to the following conditions:

	Rate	Minimum royalty
	%	$
To a Canadian university *		
As of June 1, 2002	4	5,000
To a company controlled by an officer and director		
As of June 1, 2002	1	

* The Company has a $275,000 purchase option in relating to the intellectual property currently held by this Canadian university.

On August 17, 2004, the Company advised the Canadian university of its intention to exercise its $275,000 purchase option relating to the intellectual property. As per the licensing agreement reached between the Canadian university and the Company, the terms of payment are as follows: $100,000 at the transfer date of the intellectual property, $50,000 on the first anniversary date of the transfer, $50,000 on the second and $75,000 on the third.

On August 23, 2004, university researchers filed an action in injunction against the Company and the Canadian university claiming the cancellation of the purchase option of the intellectual property consented to the Company by the Canadian University. The Company directors are of the opinion that this injunction action is unwarranted.

The Company has entered into long-term lease agreements expiring in May 2007, which call for payments of $655,397, including taxes, for the rental of premises. Minimum lease payments for the next years are $269,238 in 2005, $231,159 in 2006 and $155,000 in 2007. These leases contain a renewal option for an additional period of five years. One of these leases also contains an option to acquire the plant for an amount of $1,275,000 prior to May 1, 2005.

22 - SEGMENT DISCLOSURES

Descriptive information on the Company's reportable segments

The Company has only one reportable operating segment: processing and commercializing products derived from marine biomasses.

Geographic information

All the Company's assets are located in Canada.

22 - SEGMENT DISCLOSURES (continued)

The Company sales are attributed to the following countries based on location of customer:

	2004	2003
	$	$
Canada	**1,450,062**	304,492
United States	**565,294**	302,808
France	**232,254**	
Other	**14,248**	7,143
	2,261,858	614,443

Information about major customers

On the total sales of the Company, approximately $235,000, $225,000, $478,000 and $470,000 come from four clients.

23 - SUBSEQUENT EVENTS

On July 7, 2004, the Company proceeded with the issuance of 371,639 common shares at a price of $0.15 per share, pursuant to the payment of certain debts to directors for an amount of $40,746 and to a creditor for an amount of $15,000.

On July 13, 2004, the Company concluded a private placement for a total amount of $655,184 ($605,184 on June 19, 2004 and $50,000 on July 13, 2004) by the issuance of 3,275,922 units at a price of $0.20 each in cash, each unit including one common share and one warrant, each warrant allowing the holder to purchase one common share at a price of $0.25 per share for a period of twenty-four months following the issuance of the unit. The fair value of the warrants has been established according to the Black-Scholes model and using the following assumptions:

	June 9, 2004	July 13, 2004
i) Fair value of the common shares	0.18	0.25
ii) Risk-free interest rate	3.29 %	3.10 %
iii) Estimated life	2 years	2 years
iv) Expected volatility	121 %	121 %

The fair value of the warrants granted on June 9, 2004 and July 13, 2004 is $302,592 and $37,500 respectively.

24 - COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the presentation adopted in the current year.

CORPORATE INFORMATION

DIRECTORS OF THE BOARD

Henri Harland [1,2,3]
President and Chief Executive Officer
Neptune Technologies & Bioressources Inc.

Michel Timperio [1,2,3]
President and Chief Executive Officer
Les Systèmes de Construction Technologique Ltée

Dr. Ronald Denis [2,3]
Chief of Surgery
Sacré-Cœur Hospital, Montreal

Louis Léveillé [1,2]
Plant Manager
Bunge

Richard Normandeau [3]
President and Chief Operating Officer
Trent Drugs (Wholesale) Ltd.

Daniel Perry [2]
General Manager
Société du Vivier des Landes

Michel A. Rathier [1,2,3]
General Manager
SECOR Group

[1] Members of the Corporate Governance Committee
[2] Members of the Audit Committee
[3] Members of the Compensation Committee

MANAGEMENT

Henri Harland
President and Chief Executive Officer

André Godin
Vice-president, Operations

Dr. Fotini Sampalis
Vice-president, Research /
Business Development

Bernard Giguère
Sales Manager

Réal Dumoulin
Controller

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STOCK EXCHANGE LISTING

TSX – Venture Exchange
Symbol: NTB


NEPTUNE
technologies & bioressources


NLK
NKO
NKA
NKE