



First Quarterly Report
Ending August 31, 2003

Comments and Management Analysis

The goal of the “Comments and Management Analysis” section is to facilitate the understanding and the evaluation of trends and important changes related to the production results and the financial situation of Neptune Technologies & Bioresources (“the Company”). Past results may not provide conclusive indication as to future performance. This analysis must be read in conjunction with the Company’s consolidated financial statements as well as with the afferent notes.

There is limited historical data available to the Company upon which it may base an evaluation of its business and its outlook. Its outlook must be examined based on the risks and uncertainties associated with all companies and all new and emerging markets. Among the risk factors at play are those related to the progressive and uncharted nature of the business itself, to its financial situation and to the ongoing management of potentially strong growth. To counter these risks, the Company must, among others: I) Recruit and motivate competent personnel; II) Exploit its extraction process, develop and follow through with the improvement and optimization of its technological platform; III) Multiply its efforts with regards to the commercialization of its current product offerings for the nutraceutical and cosmeceutical markets; IV) Follow up on the validation of the benefits provided by these products for the nutraceutical, cosmeceutical and biopharmaceutical industries; and V) Face the competition. There is no guarantee that the Company will be able to manage these risks, however the Company acknowledges that it will do its best to meet these challenges.

The Company

Established in October 1998, Neptune Technologies & Bioresources is intent on pursuing its mission to develop and deploy powerful and innovative technological processes relating to the extraction and commercialization of value-added natural products rich in Omega-3 fatty acids, phospholipids and antioxidants, protein concentrates and amino acids as well as other substances extracted from marine or aquatic biomasses. Following its recent reorganization and the securing of its financing, the Company intends to continue the marketing programs it undertook in 2002-2003 targeting the nutraceutical and cosmeceutical sectors. Krill, zooplankton found in cold, deep waters, is the first marine species actively harvested by the Company.

Review of the three-month period ending August 31st 2003

During this quarter, the Company has continued its progress and its effort in the commercialization of its products. The Company has been present at different shows and conventions and has received a great deal of interest from the European and Asian markets. It has continued to put effort into the North American market as well.

Also, since June 1st, 2003, the Company is no longer considered as a development-stage Company. The Company does no longer accumulate its start-up costs and has begun depreciating the capitalized costs as at May 31, 2003.

The Company maintained its clinical research programs. The Company can rely on scientific results that demonstrate the benefits of krill oil with regards to various human conditions such as those related to skin cancer, premenstrual syndrome and high cholesterol. Neptune is also pursuing its clinical research programs aiming to demonstrate the benefits of krill oil with regards to people suffering from osteoarthritis and arteriosclerosis.

Operating Results

During the first quarters ending August 31st 2003 and August 31st, 2002, the Company recorded a net loss of \$799,362 (or \$0,037 per share) compared with \$760,370 (or \$0,049 per share) respectively.

During the first quarter ending August 31st, 2003, the Company has recorded sales totaling \$643,272. These sales were primarily recorded in Quebec and United States.

During the first quarter ending August 31st, 2003, the operating expenses amounted to \$1,445,090 compared with \$771,877 for the quarter ending August 31st, 2002. This increase due in large part to increased financial charges, which went from \$96,460 for the quarter ending August 31st, 2002 to \$210,449 for the quarter ending August 31st, 2003, primarily due to interest on debentures. This increase was also due to the end of the development stage creating a cost of sales on the first quarter sales and the depreciation on capitalized costs.

Balance Sheet

As of August 31st 2003, total assets for the Company reached \$8,552,438 compared with \$9,134,087 as of May 31st 2003. This decrease is due in large part by a decrease in cash and financing receivable for a total of \$1,083,543. This decrease is partially offset by an increase in stocks for \$257,737 and by the receivables for \$496,689.

As of August 31st 2003, the Company showed working capital of \$552,104 compared to \$1,132,006 as of May 31st, 2003. This decrease is mainly due the use of liquidity for the operations and the increase of the short term payments of the long term debt.

Outlook

Our primary challenge for the ongoing fiscal year will be to continue the effort on the marketing of our products through natural supplements distributors initially covering the North American markets and eventually the European and Asian markets. The marketing efforts will allow us to generate the funds necessary to self finance our harvesting activities and finance our research programs. These programs will be aimed at developing applications for our products and their components initially for the nutraceutical market and eventually for the cosmetics and biopharmaceutical markets as well as in support of the emerging field of nutrigenomics.

As laid out in our strategic development plan, the commercialization phase is critical to the short and medium term vision of the business in that the Company must attain break-even status prior to the end of the current fiscal year in order to expand its range of products and its market share.

Neptune Technologies & Bioresources inc.

Interim Consolidated Statement of Earnings (unaudited)

	Three months ended	
	2003	August 31, 2002
	\$	\$
Sales	643,272	
Cost of sales and operating expenses	937,342	451,553
Research	61,054	213,019
Financial	210,449	96,460
Amortization of property and equipment	236,245	10,845
	1,445,090	771,877
Loss before interest income	801,818	771,877
Interest income	2,456	11,507
Net loss	799,362	760,370
Basic and diluted loss per share	0.037	0.049
Weighted average number of shares outstanding	21,763,960	15,640,000

Interim Consolidated Statement of Deficit (unaudited)

	Three months ended	
	2003	August 31, 2002
	\$	\$
Balance, beginning of period	8,660,371	5,159,563
Net loss	799,362	760,370
Balance, end of period	9,459,733	5,919,933

Neptune Technologies & Bioresources inc.

Interim Consolidated Statement of Cash Flows (unaudited)

	Three months ended	
	2003	August 31, 2002
	\$	\$
OPERATING ACTIVITIES		
Net loss	(799,362)	(760,370)
Non-cash items		
Amortization of property and equipment	236,245	10,845
Amortization of deferred financing costs	5,194	
Financial expenses	103,567	56,250
Changes in working capital items	(610,228)	(131,018)
Cash flows from operating activities	(1,064,584)	(824,293)
INVESTING ACTIVITIES		
Property and equipment	(498)	(1,678,244)
Other assets		(602,164)
Cash flows from investing activities	(498)	(2,280,408)
FINANCING ACTIVITIES		
Bank loan		(437,000)
Demand note		1,000,000
Long-term debt		1,322,335
Repayments of long-term debt	(18,461)	
Issue of convertible debentures	250,000	
Cash flows from financing activities	231,539	1,885,335
Increase (decrease) in cash and cash equivalents	(833,543)	(1,219,366)
Cash and cash equivalents, beginning of period	934,997	1,844,560
Cash and cash equivalents, end of period	101,454	625,194

Neptune Technologies & Bioresources inc.

Interim Consolidated Balance Sheets

	Unaudited August 31, 2003	Audited May 31, 2003
	\$	\$
ASSETS		
Current assets		
Cash	101,454	934,997
Financing receivable		250,000
Accounts receivable	651,622	154,933
Research tax credits receivable	293,573	274,576
Inventories	1,182,366	924,629
Prepaid expenses	58,415	89,003
	2,287,430	2,628,138
Property and equipment	4,580,913	4,713,829
Patents and licenses, at cost	358,411	358,941
Other assets	1,325,684	1,433,179
	8,552,438	9,134,087
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	1,419,896	1,389,489
Instalments on long-term debt	315,430	106,643
	1,735,326	1,496,132
LONG-TERM DEBT (Note 3)	2,714,974	2,942,222
LIABILITY COMPONENT OF CONVERTIBLE DEBENTURES (Note 4)	3,146,597	3,043,030
	7,596,897	7,481,384
SHAREHOLDERS' EQUITY		
Capital stock and warrants (Note 5)	10,281,859	10,309,069
Contributed surplus	133,415	4,005
Deficit	(9,459,733)	(8,660,371)
	955,541	1,652,703
	8,552,438	9,134,087

Neptune Technologies & Bioresources inc.

Notes to Interim Financial Statements

August 31, 2003 (unaudited)

1 - INTERIM FINANCIAL INFORMATION

These interim consolidated financial statements as at August 31, 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 of computation as the consolidated financial statements for the fiscal year ended May 31, 2003. These interim consolidated financial statements should be read in conjunction with the audited annual consolidated financial statements and notes thereto in the Company's 2003 annual report.

Since June 1, 2003, the Company is no longer considered as a development-stage Company. The Company does no longer accumulate its start-up costs and has begun depreciating the capitalized cost as at May 31, 2003.

2 - RELATED PARTY TRANSACTIONS

The Company signed a service agreement with a shareholder (Company controlled by an officer and director) which was renewable annually. Under the terms of this agreement, the Company paid monthly service fees of \$5,000 (\$10,000 in 2002). A monthly amount of \$2,000 was deducted for the use of the Company's premises by this shareholder. During the period, total fees amounted to \$5,000 (\$24,000 in 2002). The \$5,000 fees included \$2,500 in management fees and \$2,500 in research fees. As at August 31, 2003, the balance due to this shareholder is \$5,000 (\$34,202 as at May 31, 2003), including taxes. This amount is shown on the balance sheet under accounts payable and accrued liabilities. This agreement is finished since July 1, 2003.

The Company also entered into an agreement with this shareholder, as of June 1, 2002, calling for payments in semi-annual instalments of 1% of net annual sales, for an unlimited period, as royalties. A payment will be made only if it exceeds net earnings before interest, taxes and amortization. For the current period, total royalties amount to \$6,440 (nil as at August 31, 2002). As at August 31, 2003, the balance due to this shareholder amounts to \$12,584 (\$6,144 as at May 31, 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.

Neptune Technologies & Bioresources inc.

Notes to Interim Financial Statements

August 31, 2003 (unaudited)

3 - LONG-TERM DEBT

	August 31, 2003	May 31, 2003
	\$	\$
Mortgage loan, \$1,200,000 par value, secured by processing and laboratory equipment having an amortized cost of \$3,409,846 in 2003, prime rate plus 6%, payable in monthly capital instalments of \$20,000, with a moratorium up until May 2004, maturing in January 2009	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%, payable in 60 monthly capital instalments of \$16,333 beginning in September 2004, maturing in August 2009	931,815	928,335
Mortgage loan, \$1,500,000 authorized amount (of which \$750,000 will be received next year) less the net value of the issued shares, secured by the universality of property, weekly variable interest rate determined by the lender plus 2%, payable in 60 monthly capital instalments of \$25,000 beginning in June 2004, maturing in May 2009	674,830	671,132
9% unsecured loan, payable in monthly blended instalments of \$993, maturing in September 2005	22,564	25,000
Unsecured loan, without interest, maturing in June 2004	70,000	70,000
Obligations under capital leases, interest rates varying from 9.25% to 12.67%, payable in monthly instalments of \$9,585, maturing at different dates up until December 2006	191,195	214,398
	3,030,404	3,048,865
Instalments due within one year	315,430	106,643
	2,714,974	2,942,222

4 - LIABILITY COMPONENT OF CONVERTIBLE DEBENTURES

	August 31, 2003	May 31, 2003
	\$	\$
Unsecured convertible debenture (a face amount of \$1,500,000, bearing interest at 15%)	1,837,500	1,781,250
Secured convertible debenture (a face amount of \$1,261,780, bearing interest at 15%)	1,309,097	1,261,780
	3,146,597	3,043,030

Neptune Technologies & Bioresources inc.

Notes to Interim Financial Statements

August 31, 2003 (unaudited)

5 - CAPITAL STOCK AND WARRANTS

	August 31, 2003	May 31, 2003
	\$	\$
Issued and fully paid		
21,763,960 (2003-05-31 : 21,763,960) common shares	10,219,808	10,219,808
100,000 series "D" warrants	1	1
196,000 series "E" warrants	62,049	62,049
100,000 series "F" warrants		27,210
250,000 series "G" warrants	1	1
	62,051	89,261
	10,281,859	10,309,069

6 - STOCK-BASED COMPENSATION PLAN

Activities within the plan are detailed as follows:

	Number of options	August 31, 2003 Weighted average exercise price \$	Number of options	May 31, 2003 Weighted average exercise price \$
Options outstanding, beginning of period	1,260,000	1.00	1,426,000	1.00
Attributed	670,000	0.75		
Exercised				
Cancelled			(166,000)	1.00
Options outstanding, end of period	1,930,000	0.91	1,260,000	1.00
Exercisable options, end of period	1,260,000	1.00	1,202,500	1.00

2003					
Options outstanding			Exercisable options		
Weighted average price \$	Weighted contractual life outstanding	Number of options outstanding as at August 31, 2003	Number of options exercisable as at August 31, 2003		
1.00	2.78	1,260,000	1,260,000	Weighted average price \$	1.00
0.75	4.75	670,000	-		0.75
0.91	3.46	1,930,000	1,260,000		1.00

Neptune Technologies & Bioresources inc.

Notes to Interim Financial Statements

August 31, 2003 (unaudited)

6 - STOCK-BASED COMPENSATION PLAN (continued)

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 respectively.

The 400,000 options granted to non-employees represent a \$102,200 charge related to past services, which was recorded during the year ended May 31, 2003.

If the Company had decided to count the compensation cost using the fair value-based method at the grant date, the net lost and loss per share would have been increased to the following pro forma amounts :

	Three months ended August 31,	
	2003	2002
	\$	\$
Compensation costs	62,370	
Net loss		
As reported	799,362	760,370
Pro forma	861,732	
Basic and diluted loss per share		
As reported	0.037	0.049
Pro forma	0.040	

7 - COMPARATIVE FIGURES

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