



Third Quarterly Report  
Ending February 29, 2004

## 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 accompanying 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) Multiply its efforts with regards to the commercialization of its current product offerings for the nutraceutical and cosmeceutical markets; ii) Recruit and motivate competent personnel; iii) Exploit its extraction process, develop and continue the improvement and optimization of its technological platform; iv) Follow up on the validation of the benefits provided by these products for the nutraceutical, cosmeceutical and biopharmaceutical industries; v) Face the competition; and vi) improve its productivity. 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 pursues 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 February 29, 2004

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

Also, since June 1<sup>st</sup>, 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.

The Company also obtained the certification from “l’Agence Canadienne d’Inspection des Aliments” for its plant and for its “Plan de Gestion de la Qualité” in order to be conformed to the HACCP standards. This certification is the requirement needed to export to Europe and to some Asian countries.

During this quarter, considering the problems that the Company had to face, the Company saw its sales go down from the previous quarter. The Company had to face certain difficulties due to the return of damaged merchandise. As mentioned in the previous quarter, some softgels manufactured by the Company’s sub-contractors were leaking, causing the remaining of the boxes to be soaked in krill oil. The situation was corrected during this quarter but the financial impacts will be reflected in this quarter, as well as in the next quarter. Nevertheless, the Company is very optimistic and looks towards the future with a lot of enthusiasm, considering the positive responses from the different markets and the consumers for its products.

## Operating Results

During the third quarter ending February 29, 2004 and February 28, 2003, the Company recorded a net loss of \$717,133 (or \$0,033 per share) compared with \$525,002 (or \$0,034 per share) respectively.

During the third quarter ending February 29, 2004, the Company’s sales decreased compared to the previous quarter because of the leaking softgels. The Company’s sales still reached \$601,576 compared with \$274,752 for the quarter ending February 28, 2003 (N.B. The sales from the quarter ending February 28, 2003 were capitalized since the Company was still at the development-stage).

During the third quarter ending February 29, 2004, the cost of sales and the operating expenses amounted to \$1,319,614 compared with \$525,766 for the quarter ending February 28, 2003. This increase is due in large part to the increase in the cost of sales, considering the large increase in sales between the two quarters. This increase is also caused by an increase in the amortization of the fixed assets due to the end of the development stage, which went from \$3,206 for the quarter ending February 28, 2003 to \$242,443 for the quarter ending February 29, 2004.

## Balance Sheet

As of February 29, 2004, total assets for the Company reached \$8,897,048 compared with \$9,134,087 as of May 31<sup>st</sup>, 2003. This decrease is mainly due to the decrease in cash and financing receivable for an amount of \$1,046,164 and the decrease in income tax credit receivable for an amount of \$209,339, following the receipt of part of the credits. This overall decrease is partially offset by the increase of the receivables for an amount of \$1,170,897 and the inventory for an amount of \$255,649.

As of February 29, 2004, the Company showed working capital of \$1,069,043 compared to \$1,132,006 as of May 31<sup>st</sup>, 2003. This decrease is due in large part by the use of liquidities for the operations and the payments to suppliers and the increase in the payment of the short term portion of the long term debt. This decrease is partially offset by the increase in receivables and inventory.

## Outlook

The Company is finalizing a private placement to resolve the financial pressure on the working capital from the leaking softgels problem.

The Company also initiated discussions on a project involving the implementation of a plant in the United States through a subsidiary financed by US funds.

The Company recently hired two experienced Directors of sales in order to support the commercial efforts presently in progress. Their mission is to increase the commercialization efforts and materialize some short-term sales. The two candidates are aspiring to become Vice-President Sales and have more than 35 years of experience between them.

Our primary challenge for the ongoing fiscal year will be to significantly penetrate the European market. We should multiply our effort on the marketing of our products through natural supplements distributors covering the North American markets and continue our effort to penetrate the 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. 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		Nine months ended	
	February 29,		February 29,	
	2004	2003	2004	2003
	\$	\$	\$	\$
<b>Sales</b>	<b>601 576</b>		<b>2 201 198</b>	
Cost of sales and operating expenses	<b>829 422</b>	303 604	2 910 258	1 250 898
Research	<b>12 606</b>	(37 730)	156 899	307 330
Financial	<b>235 143</b>	256 686	682 434	537 090
Amortization of property and equipment	<b>242 443</b>	3 206	716 618	39 666
	<b>1 319 614</b>	525 766	4 466 209	2 134 984
Loss before interest income	<b>718 038</b>	525 766	2 265 011	2 134 984
Interest income	<b>905</b>	764	4 304	23 398
<b>Net loss</b>	<b>717 133</b>	525 002	2 260 707	2 111 586
Basic and diluted loss per share	<b>0,033</b>	0,034	0,103	0,135
Weighted average number of shares outstanding	<b>21 924 810</b>	15 640 000	21 864 082	15 640 000

### Interim Consolidated Statement of Deficit (unaudited)

	Three months ended		Nine months ended	
	February 29,		February 29,	
	2004	2003	2004	2003
	\$	\$	\$	\$
Balance, beginning of period	<b>10 203 945</b>	6 746 147	8 660 371	5 159 563
Net loss	<b>717 133</b>	525 002	2 260 707	2 111 586
Balance, end of period	<b>10 921 078</b>	7 271 149	10 921 078	7 271 149

## Neptune Technologies & Bioresources inc.

### Interim Consolidated Statement of Cash Flows (unaudited)

	Three months ended		Nine months ended	
	2004	February 29, 2003	2004	February 29, 2003
	\$	\$	\$	\$
<b>OPERATING ACTIVITIES</b>				
Net loss	(717 133)	(525 002)	(2 260 707)	(2 111 586)
Non-cash items				
Amortization of property and equipment	242 443	3 206	716 618	39 666
Amortization of deferred financing costs	6 280		17 026	
Financial expenses	153 327	152 522	395 565	334 037
Options granted	26 605		42 205	
Changes in working capital items	108 113	101 692	(1 433 602)	919 577
Cash flows from operating activities	(180 365)	(267 582)	(2 522 895)	(818 306)
<b>INVESTING ACTIVITIES</b>				
Banker's acceptance		116 627		116 627
Property and equipment		(147 334)	(13 964)	(2 179 678)
Other assets	(61 084)	(73 044)	(157 113)	(1 267 316)
Cash flows from investing activities	(61 084)	(103 751)	(171 077)	(3 330 367)
<b>FINANCING ACTIVITIES</b>				
Bank loan				(437 000)
Demand note		530 000		1 502 790
Long-term debt	158 886		750 000	1 558 611
Repayments of long-term debt	(37 234)	(22 444)	(102 192)	(89 238)
Issue of convertible debentures			1 250 000	
Issue of warrants				89 259
Deferred charges				(10 000)
Cash flows from financing activities	121 652	507 556	1 897 808	2 614 422
<b>Increase (decrease) in cash and cash equivalents</b>	<b>(119 797)</b>	<b>136 223</b>	<b>(796 164)</b>	<b>(1 534 251)</b>
Cash and cash equivalents, beginning of period	258 630	174 086	934 997	1 844 560
Cash and cash equivalents, end of period	138 833	310 309	138 833	310 309

# Neptune Technologies & Bioresources inc.

## Interim Consolidated Balance Sheets

	Unaudited February 29, 2004	Audited May 31, 2003
	\$	\$
<b>ASSETS</b>		
Current assets		
Cash	138 833	934 997
Financing receivable		250 000
Accounts receivable	1 325 830	154 933
Research tax credits receivable	65 237	274 576
Inventories	1 180 278	924 629
Prepaid expenses	142 575	89 003
	<b>2 852 753</b>	2 628 138
Property and equipment	4 420 554	4 713 829
Patents and licenses, at cost	418 521	358 941
Other assets	1 205 220	1 433 179
	<b>8 897 048</b>	9 134 087
<b>LIABILITIES</b>		
Current liabilities		
Accounts payable and accrued liabilities	1 075 419	1 389 489
Instalments on long-term debt	708 291	106 643
	<b>1 783 710</b>	1 496 132
<b>LONG-TERM DEBT</b> (Note 4)	<b>3 107 116</b>	2 942 222
<b>LIABILITY COMPONENT OF CONVERTIBLE DEBENTURES</b> (Note 5)	<b>4 403 730</b>	3 043 030
	<b>9 294 556</b>	7 481 384
<b>SHAREHOLDERS' EQUITY</b>		
Capital stock and warrants (Note 6)	10 347 949	10 309 069
Contributed surplus	175 621	4 005
Deficit	(10 921 078)	(8 660 371)
	<b>(397 508)</b>	1 652 703
	<b>8 897 048</b>	9 134 087

# Neptune Technologies & Bioresources inc.

## Notes to Interim Financial Statements

February 29, 2004 (unaudited)

### **1 - INTERIM FINANCIAL INFORMATION**

These interim consolidated financial statements as at February 29, 2004 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 - CHANGE IN ACCOUNTING POLICIES**

On June 1st, 2003, the Company adopted prospectively the recommendations of the Canadian Institute of Chartered Accountants Handbook Section 3870, *Stock-based Compensation and Other Stock-based Payments*. This section defines notably recognition, measurement and disclosure standards for stock-based compensation to non-employees and employees. According to the new standards, stock-based payments should be recorded systematically in the financial statements of the Company.

These standards define a fair value-based method of accounting and encourage entities to adopt this method of accounting for its stock-based compensation plan. Under this method, compensation cost should be measured at the grant date based on the fair value of the award and should be recognized over the related service period.

### **3 - RELATED PARTY TRANSACTIONS**

The Company has signed a service agreement with a shareholder (company controlled by an officer and director) which is renewable annually. Under the terms of this agreement, the Company paid monthly service fees of \$5,000 (\$10,000 in 2003). A monthly amount of \$2,000 was deducted for the use of the Company's premises by this shareholder. During the period, total fees amount is nil (\$18,000 in 2003). As at February 29, 2004, the balance due to this shareholder is nil (\$34,202 as at May 31, 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 \$6,016 (\$1,702 in 2003). As at February 29, 2004, the balance due to this shareholder amounts to \$28,163 (\$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

February 29, 2004 (unaudited)

### 4 - LONG-TERM DEBT

	February 29, 2004	May 31, 2003
	\$	\$
Mortgage loan, \$1,200,000 par value, secured by processing and laboratory equipment having an amortized cost of \$3,105,325 in 2004, 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	938 426	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%, payable in 60 monthly capital instalments of \$25,000 beginning in June 2004, maturing in May 2009	1 379 815	671 132
9% unsecured loan, payable in monthly blended instalments of \$993, maturing in September 2005	17 527	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	269 639	214 398
	<b>3 815 407</b>	3 048 865
Instalments due within one year	<b>708 291</b>	106 643
	<b>3 107 116</b>	2 942 222

### 5 - LIABILITY COMPONENT OF CONVERTIBLE DEBENTURES

	February 29, 2004	May 31, 2003
	\$	\$
Unsecured convertible debenture (a face amount of \$1,500,000, bearing interest at 15%)	1 950 000	1 781 250
Secured convertible debenture (a face amount of \$1,261,780, bearing interest at 15%)	1 403 730	1 261 780
Unsecured convertible debenture (a face amount of \$1,000,000, bearing interest at 15%)	1 050 000	
	<b>4 403 730</b>	3 043 030

## Neptune Technologies & Bioresources inc.

### Notes to Interim Financial Statements

February 29, 2004 (unaudited)

#### 5 - LIABILITY COMPONENT OF CONVERTIBLE DEBENTURES (continued)

- (a) On October 20th 2003, the Company issued a non-secured debenture for an amount of \$1,000,000 bearing interest at 15%. This debenture is redeemable in whole or in part and convertible by its holder in Neptune's Common shares at the highest of \$0.35 and the market price on the date of the conversion.

The Company can reimburse the debenture in whole or in part before October 20th 2008, date that the debenture and the interest will become due. In the case of an anticipated reimbursement, the holder will have a 30 days delay to decide to convert the debenture and the accrued interest. If the anticipated reimbursement is taking place before October 20th 2005, the premium will be 30% less the accrued interest on the reimbursed capital at that date.

#### 6 - CAPITAL STOCK AND WARRANTS

	February 29, 2004	May 31, 2003
	\$	\$
<b>Issued and fully paid</b>		
21,947,244 (2003-05-31 : 21,763,960) common shares	<b>10 285 899</b>	10 219 808
100,000 series "D" warrants		1
196,000 series "E" warrants	<b>62 049</b>	62 049
100,000 series "F" warrants		27 210
250,000 series "G" warrants	<b>1</b>	1
	<b>62 050</b>	89 261
	<b>10 347 949</b>	10 309 069

On September 3rd 2003, the Company has issued 144,456 Common shares when awarded a portion of the second disbursement of the \$1,500,000 authorized loan. These Common shares are evaluated at \$0.35 per share for a total of \$50,560.

On January 22th 2004, the Company has issued 38,828 Common shares when awarded the last portion of the second disbursement of the \$1,500,000 authorized loan. These Common shares are evaluated at \$0.40 per share for a total of \$15,531.

## Neptune Technologies & Bioresources inc.

### Notes to Interim Financial Statements

February 29, 2004 (unaudited)

#### 7 - STOCK-BASED COMPENSATION PLAN

Activities within the plan are detailed as follows:

	Number of options	February 29, 2004 Weighted average exercise price \$	Number of options	May 31, 2003 Weighted average exercise price \$
Options outstanding, beginning of period	2 505 000	0,88	1 426 000	1,00
Attributed				
Exercised				
Cancelled	(140 000)	0,86	(166 000)	1,00
Options outstanding, end of period	2 365 000	0,88	1 260 000	1,00
Exercisable options, end of period	1 452 500	0,96	1 202 500	1,00

2003					
	Options outstanding		Exercisable options		
	Weighted average price \$	Weighted remaining contractual life outstanding	Number of options outstanding as at Feb. 29, 2004	Number of options exercisable as at Feb. 29, 2004	Weighted average price \$
	1,00	2,28	1 200 000	1 200 000	1,00
	0,75	4,25	640 000	167 500	0,75
	0,75	4,5	340 000	85 000	0,75
	0,75	4,67	185 000	-	0,75
	0,88	3,32	2 365 000	1 452 500	0,96

#### 8 - COMPARATIVE FIGURES

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