# Second Quarterly Report

## Ending November 30, 2007

# 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 financial situation of Neptune Technologies & Bioressources Inc. ("Neptune" or "the Company") between May 31, 2007 and November 30, 2007. It also includes a comparison between the results of operations, cash flows and financial position for the 3-month period ending November 30, 2007 and those from the 3-month period ending November 30, 2006.

This analysis, completed on January 8, 2008, must be read in conjunction with the Company's audited consolidated financial statements as at May 31, 2007, presented in the last 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 otherwise indicated.

## Overview

With regards to market development and product commercialization, during the first quarterly report ending November 30, 2007, Neptune concentrated its efforts on the commercialization of the American, European and Asian markets. Neptune also deployed development initiatives that resulted with sales in the Australian market. This was accomplished through Company participation in various international tradeshows in order to promote its products and increase its presence in new markets to favour its growth. Neptune also maintains its new commercial approach aimed at building strategic alliances with potential partners in the nutraceutical, functional foods and medical markets, as well as the biopharmaceutical market.

The Company capitalized on the results of its clinical research and benefits to this day from scientific results that demonstrate the benefits of Neptune Krill Oil (NKO™) on various human conditions, such as those relating to skin cancer, premenstrual syndrome, high cholesterol, inflammation problems as well as attention deficit disorder and hyperactivity.

During the second quarter of the May 31, 2008 fiscal year-end, the Company generated sales of $2.17M, as compared to $1.95M for the quarter ending November 30, 2006 an increase of 11% mainly due to a sustained prospecting effort in its main markets as well as in the newly Australian market.

## Principal quarterly financial data

(In thousands of dollars, except per share data)

**Fiscal Year Ending May 31, 2008**

| | Total | First Quarter | Second Quarter | Third Quarter | Fourth Quarter |
|---|---|---|---|---|---|
| Sales Figures | 4,254 | 2,085 | 2,169 | | |
| EBITDA [1] | 402 | 332 | 70 | | |
| Net Loss | (2,614) | (1,051) | (1,563) | | |
| Loss per Share basic and diluted | (0.071) | (0.029) | (0.042) | | |

**Fiscal Year Ended May 31, 2007**

| | Total | First Quarter | Second Quarter | Third Quarter | Fourth Quarter |
|---|---|---|---|---|---|
| Sales Figures | 8,126 | 1,552 | 1,947 | 2,889 | 1,738 |
| EBITDA [1] | 1,504 | 303 | 546 | 719 | (64) |
| Net Loss | (2,677) | (286) | (449) | (454) | (1,488) |
| Loss per Share basic and diluted | (0.075) | (0.008) | (0.013) | (0.013) | (0.041) |

**Fiscal Year Ended May 31, 2006**

| | Total | First Quarter | Second Quarter | Third Quarter | Fourth Quarter |
|---|---|---|---|---|---|
| Sales Figures | 6,912 | 1,683 | 1,354 | 1,745 | 2,130 |
| EBITDA [1] | 1,049 | 342 | 245 | 235 | 227 |
| Net Earnings (net loss) | (886) | (390) | (453) | 665 | (708) |
| Earnings (loss) per Share basic and diluted | (0.029) | (0.015) | (0.018) | 0.021 | (0.023) |

[1] The EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization) is presented for information purposes only and represents a financial performance measurement tool mostly used in financial circles. Because there is no standard method endorsed by Canadian GAAP requirements, the results may not be compared to similar measurements presented by other public companies. Neptune obtains its EBITDA measurement by adding to net earnings, financial expenses, amortizations, income taxes and losses on exchange incurred during the fiscal year. Neptune also excludes the effects of non-monetary transactions recorded in the contributed surplus, such as share-based compensation, for its EBITDA calculation.

In the second quarter ending November 30, 2007, the Company realized an EBITDA of $0.070M compared to $0.546M from the quarter ending November 30, 2006, a decrease of $0.476M from the corresponding quarter of the previous fiscal year. This decrease of EBITDA is mainly due to the American dollar devaluation. The estimated impact is approximately $0.300M on the sales and gross margin. This decrease of EBITDA is also attributable to additional expenses related to the reporting, communication of financial information and investment relation expenses for an additional amount of approximately $0.300M. Without this non-controllable devaluation of the American dollar and these additional expenses, this quarter's EBITDA would have been higher than the EBITDA from the corresponding quarter of the previous fiscal year.

During the quarter ending November 30, 2007, the Company recorded a net loss of $1.563M compared to a net loss of $0.449M for the corresponding quarter of the previous fiscal year. The increase in net loss of $1.115M is due to multiple factors: the increase of the foreign exchange loss for an amount of $0.205M, the increase of the stock-based compensation for an amount of $0.468M as well as the estimated $0.600M related to the American dollar devaluation and the additional expenses related to the reporting and communication of financial information publication conformity as well as the communication and investment relation expenses. The total of these expenses mainly uncontrollable translates to an increase of the net loss by approximately $1.270M.

The Company also reported non-cash stock-based compensation of $1.197M for employees and non-employees. These costly charges are mainly due to the evaluation model and the share volatility. The exceeding charge from last year corresponding quarter is entirely explained by the options granted in February 2007, May 2007 and July 2007. The expense related to the grant of these options represents approximately $0.800M for options with exercise prices from $5.50 to $7.50. The evaluation model provides a higher value to these options since the quoted market value and the exercise price at the valuation date were high. The model does not reflect in any way the recent market decline. Therefore, since the compensation related to the stock options is not re-evaluated based on new market conditions even though the stock price is now 35% lower than such price at the grant date, it obviously makes these options not as appealing for its holder.

## Cash flows and financial position

**Operating Activities**
During the second quarter ending November 30, 2007, the Company's operating activities generated an increase in liquidities of $0.169M, compared to a decrease of $0.510M for the quarter ending November 30, 2006. The increase in liquidities is mainly attributable to the variations in working capital items from one quarter to the next for an amount of $0.386M due to a better use of the Company's resources by the management. The changes to the working capital items for the second quarter ending November 30, 2007 are mainly due to a decrease in accounts receivable of $0.971M, a decrease in inventories of $0.151M, and a decrease in accounts payable of $0.725M, since August 31, 2007.

**Investing Activities**
During the second quarter ending November 30, 2007, the Company's investing activities generated a decrease in liquidities of $0.421M. This decrease is mainly due to the increase of the short term deposits for $0.266M and the acquisition of property, plant and equipment and intangible assets totalling $0.154M.

**Financing Activities**
During the second quarter ending November 30, 2007, the Company's financing activities generated an increase in liquidities of $0.592M. This increase is mainly attributable to the increase in the bank loan of $0.400M and the issuance of shares from the exercise of stock options for an amount of $0.312M. In counterpart, the Company reimbursed its long term debt for $0.220M.

As a result, the Company increased its cash by $0.340M since August 31, 2007.

**Financial Situation**
The following table details the significant changes to the balance sheets as at November 30, 2007 and May 31, 2007:

| Accounts | Increase (Reduction) (In thousands of dollars) | Comments |
|---|---|---|
| Cash | 367 | See cash flow statement |
| Short term deposits | (135) | Cash in of some of the term deposit |
| Receivables | (264) | Receipt of important amounts from clients with long credit terms |
| Inventories | 682 | Purchase of raw material in order to secure 2007-2008 production |
| Advance payment | 818 | Payment received from the conclusion of strategic alliances |
| Long term debt | (449) | Reimbursement of the long term debt |

## Primary financial ratios

| | Nov. 30, 2007 | May 31, 2007 | May 31, 2006 |
|---|---|---|---|
| **Working Capital Ratio (current assets / current liabilities)** [1] | **3.47** | **3.32** | **1.80** |
| **Solvency Ratio** (Debt Capital/Shareholder Equity) [2] | 0.58 | 0.55 | 1.26 |

Most of the Company's financial ratios slightly improved for the quarter ending November 30, 2007, as compared to the year ended May 31, 2007 because of a good use of cash flow.

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 (In thousands of dollars) | | | |
|---|---|---|---|---|---|
| **Contractual Obligations** | **Total** | **Less than one period** | **2 to 3 periods** | **4 to 5 periods** | **More than 5 periods** |
| Long-term Debt * | 3,782 | 460 | 1,799 | 866 | 657 |
| Loans guaranteed by investments in rental contracts * | 47 | 13 | 33 | 1 | - |
| Other rental contracts | 527 | 42 | 172 | 175 | 138 |
| Total liabilities | 4,356 | 515 | 2,004 | 1,042 | 795 |

* Including interest fees

An option totalling $275,000 for the acquisition of an intellectual property should be added to the total of the contractual obligations.

**Related Party Transactions**
The transactions between related parties are described in note 3 "*Related Party Transactions"* of the Company's financial statements as at November 30, 2007.

**Change in Accounting Policies**
No changes in accounting policies since May 31, 2007 except for of new accounting standards explained in note 2 of the Company's financial statements "*Changes in Accounting Policies"* .

**Subsequent Events**
There were no significant subsequent events after November 30, 2007.

## Risk Factors

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

The Company's policy is to have 90% of its receivables guaranteed by insurers unless exceptional circumstances. U.S. currency is used for the majority of foreign transactions. The exchange rate risk to the Company is mainly limited to the variation of the US dollar. Despite the fact that purchases of raw material are currently concluded in U.S. currency, management also has the ability to use foreign exchange contracts to minimize the exchange risk. As of November 30, 2007, the Company did not have any foreign exchange contract.

**Product Liability**
The Company has secured a $5M product liability insurance policy, renewable on an annual basis, to cover civil liability relating to its products. The Company also maintains a quality-assurance process that is QMP certified by the Canadian Food Inspection Agency (CFIA). Additionally, the Company has obtained *Good Manufacturing Practices* accreditation from Health Canada.

**Prospective Statements**
This Management Analysis contains prospective information. Prospective statements include a certain amount of risk and uncertainty and may result in actual future Company results differing noticeably from those predicted. These risks include, but are not limited to: the growth in demand for Company products, seasonal variations in customer orders, changes to raw material pricing and availability, the time required to complete important strategic transactions, and changes to economic conditions in Canada, the United-States and Europe (including changes to exchange and interest rates).

The Company based its prospective statement on the information available when this analysis was drafted. The inclusion of this information should not be considered a declaration by the Company these estimated results have been achieved.

[1] The Working Capital Ratio is presented for information purposes only and represents a financial performance measurement tool mostly used in financial circles. Because there is no standard method endorsed by Canadian GAAP requirements, the results may not be compared to similar measurements presented by other public companies.

[2] The Solvency Ratio is presented for information purposes only and represents a financial performance measurement tool mostly used in financial circles. Because there is no standard method endorsed by Canadian GAAP requirements, the results may not be compared to similar measurements presented by other public companies.

## Additional Information

Updated and additional Company information is available from the SEDAR Website at http://www.sedar.com and from EDGAR Website at http://www.sec.gov

On January 8, 2008, the total number of common shares issued by the Company and in circulation was 37,354,921, and Company common shares were being traded on the TSX Exchange Venture under the symbol « NTB » and on NASDAQ Capital Market under the symbol « NEPT ».

| | |
|---|---|
| /s/ Henri Harland<br>President and CEO | /s/ André Godin<br>Vice-president, Administration & Finance |

# Neptune Technologies & Bioressources inc.
# Consolidated Balance Sheet

| November 30, 2007 and May 31, 2007 | Unaudited November 30, 2007 | Audited May 31, 2007 |
|---|---|---|
| ***ASSETS*** | | |
| Current assets | | |
| Cash and cash equivalents | **$ 1,026,695** | $ 659,354 |
| Short term deposits (3.55%) | **2,614,897** | 2,750,323 |
| Accounts receivable | **2,803,015** | 3,067,381 |
| Tax credits receivable | **161,864** | 100,858 |
| Inventories | **2,797,361** | 2,115,652 |
| Prepaid expenses | **52,520** | 53,039 |
| | **9,456,352** | 8,746,607 |
| Property, plant and equipment | **4,101,015** | 4,310,360 |
| Intangible assets | **698,440** | 560,620 |
| Other assets | **10,072** | 18,385 |
| | **$ 14,265,879** | $ 13,635,972 |
| ***LIABILITIES*** | | |
| Current liabilities | | |
| Bank loan | **$ 400,000** | $ 210,000 |
| Accounts payable and accrued liabilities | | |
| Company controlled by an officer and director | **51,337** | 46,134 |
| Other | **1,329,530** | 1,432,785 |
| Current portion of long-term debt | **943,199** | 942,969 |
| | **2,724,066** | 2,631,888 |
| Advance Payments (note 4) | **818,210** | - |
| Long-term debt (note 6) | **2,846,535** | 3,295,312 |
| | **6,388,811** | 5,927,200 |
| ***SHAREHOLDERS EQUITY*** | | |
| Capital stock and warrants (Note 7) | **24,600,819** | 23,182,472 |
| Contributed surplus | **4,339,145** | 2,974,533 |
| Deficit | **(21,062,897)** | (18,448,233) |
| | **7,877,068** | 7,708,772 |
| | **$ 14,265,879** | $ 13,635,972 |

See acompanying notes to unaudited consolidated financial statements

# Neptune Technologies & Bioressources inc.

**(unaudited)**

## Consolidated Statements of Deficit

**Periods ended November 30, 2007 and 2006**

| | **2007** | 2006 | **2007** | 2006 |
|---|---|---|---|---|
| | **(3 months)** | (3 months) | **(6 months)** | (6 months) |
| Balance, beginning of period | **$ (19,499,600)** | $ (15,523,369) | **$ (18,448,233)** | $ (15,237,262) |
| Net loss | **(1,563,297)** | (448,606) | **(2,614,664)** | (734,713) |
| Share issue expenses | **-** | (343,688) | **-** | (343,688) |
| Balance, end of period | **$ (21,062,897)** | $ (16,315,663) | **$ (21,062,897)** | $ (16,315,663) |

## Consolidated Statements of Contributed Surplus

**Periods ended November 30, 2007 and 2006**

| | **2007** | 2006 | **2007** | 2006 |
|---|---|---|---|---|
| | **(3 months)** | (3 months) | **(6 months)** | (6 months) |
| Balance, beginning of period | **$ 3,892,877** | $ 1,506,257 | **$ 2,974,533** | $ 1,172,116 |
| Exercised options | **(751,188)** | - | **(906,356)** | - |
| Stock-based compensation – employees | **1,040,314** | 371,848 | **(2,040,115)** | 678,376 |
| Stock-based compensation – non-employees | **157,141** | 357,731 | **230,853** | 385,344 |
| Balance, end of period | **$ 4,339,145** | $ 2.235,836 | **$ 4,339,145** | $ 2,235,836 |

See acompanying notes to unaudited consolidated financial statements

# Neptune Technologies & Bioressources inc.
# Consolidated Statements of Earnings
**(unaudited)**

## Periods ended November 30, 2007 and 2006

| | | 2007 | | 2006 | | 2007 | | 2006 |
|---|---|---|---|---|---|---|---|---|
| | | **(3 months)** | | (3 months) | | **(6 months)** | | (6 months) |
| **Sales** | **$** | **2,168,809** | $ | 1,947,595 | **$** | **4,254,145** | $ | 3,499,084 |
| Cost of sales and operating expenses (excluding amortization and stock based compensation) | | **2,019,915** | | 1,311,173 | | **3,693,752** | | 2,505,400 |
| Stock options based compensation | | **1,197,455** | | 729,579 | | **2,270,968** | | 1,063,720 |
| Research and development expenses | | **96,747** | | 93,112 | | **201,432** | | 150,010 |
| Financial expenses | | **133,931** | | 153,389 | | **267,817** | | 283,141 |
| Amortization | | **145,083** | | 159,808 | | **290,768** | | 311,603 |
| | | **3,593,131** | | 2,447,061 | | **6,724,737** | | 4,313,874 |
| Loss before the undernoted | | **(1,424,323)** | | (499,466) | | **(2,470,593)** | | (814,790) |
| Interest income | | **17,674** | | 2,642 | | **42,783** | | 4,869 |
| Foreign exchange gain (loss) | | **(156,648)** | | 48,218 | | **(186,854)** | | 75,208 |
| **Net loss** | **$** | **(1,563,297)** | $ | (448,606) | **$** | **(2,614,664)** | $ | (734,713) |
| Basic and diluted loss per share | **$** | **(0.042)** | $ | (0.013) | **$** | **(0.071)** | $ | (0.021) |
| Weighted average number of shares outstanding | | **37,171,235** | | 34,520,703 | | **37,029,860** | | 34,520,703 |

See acompanying notes to unaudited consolidated financial statements

# Neptune Technologies & Bioressources inc.
# Consolidated Statements of Cash Flows
**(unaudited)**

## Periods ended November 30, 2007 and 2006

| | **2007** | 2006 | **2007** | 2006 |
|---|---|---|---|---|
| | **(3 months)** | (3 months) | **(6 months)** | (6 months) |
| ***OPERATING ACTIVITIES*** | | | | |
| Net loss | **$ (1,563,297)** | $ (448,606) | **$ (2,614,664)** | $ (734,713) |
| Non-cash items | | | | |
| Property, plant and equipment amortization | **142,155** | 157,566 | **284,912** | 307,118 |
| Intangible assets amortization | **2,928** | 2,242 | **5,856** | 4,485 |
| Deferred financing cost amortization | **4,156** | 1,806 | **8,312** | 5,962 |
| Capitalized interest in long term debt | **-** | 11,552 | **-** | - |
| Stock-based compensation - employees | **1,040,314** | 371,848 | **2,040,115** | 678,376 |
| Stock-based compensation - non-employees | **157,141** | 357,731 | **230,853** | 385,344 |
| Changes in working capital items (Note 5) | **385,853** | (964,262) | **(575,882)** | (1,949,801) |
| Cash flow from operating activities | **169,250** | (510,123) | **(620,498)** | (1,303,229) |
| ***INVESTING ACTIVITIES*** | | | | |
| Addition to property, plant and equipment | **(34,703)** | (902,806) | **(75,567)** | (910,860) |
| Addition to intangible assets | **(119,637)** | (21,002) | **(143,676)** | (23,919) |
| Decrease (increase) in short term deposits | **(266,373)** | (3,550,000) | **211,307** | (3,550,000) |
| Increase (decrease) in other assets | **-** | 100,000 | **(75,881)** | (100,000) |
| Cash flows from investing activities | **(420,713)** | (4,373,808) | **(83,817)** | (4,384,779) |
| ***FINANCING ACTIVITIES*** | | | | |
| Increase (decrease) in bank loan | **400,000** | (110,000) | **190,000** | (40,000) |
| Increase in long-term debt | **-** | 855,000 | **-** | 855,000 |
| Repayment of long-term debt | **(220,422)** | (212,135) | **(448,547)** | (212,135) |
| Issue of share capital | **-** | 4,500,000 | **-** | 4,500,000 |
| Advanced payments | **99,860** | - | **818,210** | - |
| Issue of share capital on exercice of options and warrants | **312,056** | (50,136) | **511,993** | 98,258 |
| Share issue expenses | **-** | (343,688) | **-** | (343,688) |
| Cash flows from financing activities | **591,494** | 4,639,041 | **1,071,656** | 4,857,435 |
| **Net increase (decrease) in cash and cash equivalents** | **(340,031)** | (244,890) | **367,341** | (830,573) |
| Cash and cash equivalents, at the beginning | **(686,664)** | 290,218 | **659,354** | 875,901 |

# Neptune Technologies & Bioressources inc.

# Notes to Consolidated Financial Statements
**(unaudited)**

## Periods ended November 30, 2007 and 2006

### *1 - BASIS OF PRESENTATION*

The interim consolidated financial statements have not been reviewed by the auditors and reflect normal and recurring adjustments which are, in the opinion of Neptune Technologies & Bioressources Inc. (the “Company”), considered necessary for a fair presentation. These interim unaudited consolidated financial statements have been prepared in conformity with Canadian generally accepted accounting principles. However, they do not include all disclosures required under generally accepted accounting principles and accordingly should be read in conjunction with the consolidated financial statements and the notes thereto included in the Company’s latest Annual Report. The interim unaudited consolidated financial statements have been prepared using the same accounting policies as described in the latest Annual Report.

### *2 - CHANGES TO ACCOUNTING POLICIES*

Effective June 1, 2007, the Company adopted the Canadian Institute of Chartered Accountants (CICA) Handbook Section 1530, *Comprehensive Income* , Section 3855, *Financial Instruments – Recognition and Measurement* and Section 3865, *Hedges* . The significant changes related to these new accounting standards are as follows:

**a) Comprehensive income:**

CICA Handbook Section 1530, Comprehensive Income, introduces a new financial statement which shows the change in equity of an enterprise during a period from transactions and other events arising from non-owner sources. No adjustments were required as a result of the application of this section for the six-month period ended November 30, 2007.

**b) Financial assets and financial liabilities, and Hedges:**

CICA Handbook Section 3855 establishes standards for recognizing and measuring financial assets, financial liabilities and non-financial derivatives. Under this standard, financial instruments are now classified as held-for-trading, available-for-sale, held-to-maturity, loans and receivables, or other financial liabilities and measurement in subsequent periods depends on their classification. Transaction costs are expensed as incurred for financial instruments classified as held-for-trading. For other financial instruments, transaction costs are capitalized on initial recognition and must be classified against the underlying financial instruments.

Financial assets and financial liabilities held-for-trading are measured at fair value with changes in those fair values recognized in financial expenses. Financial assets held-to-maturity, loans and receivables, and other financial liabilities are measured at amortized cost using the effective interest method of amortization. Available-for-sale financial assets are measured at fair value or at cost in the case of financial assets that do not have a quoted market price in an active market and changes in fair value are recorded in comprehensive income.

The Company classified its cash and cash equivalents and its short terms deposits as financial assets held-for-trading. Accounts receivable and the subordinated loan to an affiliated company and interest receivable are classified as loans and receivables. Accounts payable and accrued liabilities and tax credits receivable are classified as other financial liabilities.

CICA Handbook Section 3865, Hedges, specifies the criteria under which hedge accounting may be applied, how hedges accounting sould be performed under permitted hedging strategies and required disclosures.

The adoption of these new sections had no impact on the consolidated financial statements for the six-month period ended November 30, 2007.

### *3 - RELATED PARTY TRANSACTION*

The Company entered into an agreement with a shareholder, (a company controlled by an officer and director), as of June 1, 2002, calling for royalties to be paid in semi-annual instalments equal to 1% of net annual sales, for an unlimited period. The amount paid cannot exceed net earnings before interest, taxes and amortization. For the period ended November 30, 2007, total royalties amount to $42,541 ($81,206 in 2007). As of November 30, 2007, the balance due to this shareholder under this agreement amounts to $51,337 ($46,134 as of May 31, 2007). This amount is presented in 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.

## *4 - PARTNERSHIPS AND COLLABORATIONS AGREEMENTS*

During the first quarter, the company collected $718,350 first of many amounts scheduled under the terms of a partnership agreement entered in June 2007. This amount is recorded under advanced payment. The agreement foresees the Company's commitment of developing a clinical research program and the development of products incorporating Neptune krill oil ("NKO™") in a dietary matrix. The initial payment is reimbursable only if the parties fails to meet certain common research objectives and milestones within the development process prior to the release of the products on the market.

During the 2nd quarter, the company collected $99,860 under the terms of a collaboration agreement for a clinical study concluded in May 2007. This amount is recorded under advanced payments. The agreement foresees the Company's commitment to implement a research project on the effects of Neptune krill oil and Neptune phospholipid concentrates on certain neuro-degenerative health conditions. This amount is uniquely reimbursable if a license or a license option is signed by Neptune concerning the use of the clinical study's results with a third party other than the one currently involved in the agreement.

For the six month period ended November 30, 2007, no revenues were recognized relatively to these two agreements.

## *5 - INFORMATION INCLUDED IN THE STATEMENT OF CASH FLOWS*

Net changes in working capital items are detailed as follows:

| | | Three months ended November 30 | | Six months ended November 30 |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| Accounts receivable | **$ 971,389** | $ (446,971) | **$ 264,366** | $ (796,946) |
| Tax credits receivable | **(23,160)** | (16,292) | **(61,006)** | (36,880) |
| Inventories | **151,195** | (727,985) | **(681,709)** | (1,237,312) |
| Prepaid expenses | **11,192** | (29,618) | **519** | (6,853) |
| Accounts payable and accrued liabilities | **(724,763)** | 256,604 | **(98,052)** | 128,190 |
| | **$ 385,853** | $ (964,262) | **$ (575,882)** | $ (1,949,801) |

### *6 - LONG-TERM DEBT*

| | | November 30 2007 | | May 31 2007 |
|---|---|---|---|---|
| Mortgage loan, $1,200,000 par value, secured by processing and laboratory equipment having an amortized cost of $2,259,299 as of November 30, 2007, prime rate plus 6.75% (15% as of November 30, 14.75% as of May 31, 2007), payable in monthly principal instalments of $26,650, maturing in February 2010 | **$** | **720,250** | $ | 880,150 |
| 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 5% (effective rate 14.11% as of November 30, 2007, and 13.55% as of May 31, 2007), payable in 60 monthly principal instalments of $16,333, maturing in September 2011 | | **723,524** | | 818,298 |
| 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 3% (effective rate 12.25% as of November 30 and 11.92% as of May 31, 2007), payable in 60 monthly principal instalments of $25,000, maturing in September 2011 | | **1,096,125** | | 1,238,006 |
| Mortgage loan, $855,000 par value, secured by the plant, payable in 10 years, fixed interest rate of 7.77% (on 10 yrs), payable in the first 10 years until 2017 in monthly principal of $8,058. Balance to be renegociated in 10 yrs capital instalments of $25,000, maturing in September 2011 | | **820,967** | | 836,813 |
| Secondary mortgage loan, following plant acquisition, $399,750 par value, representing the balance of sale, secured by the plant, fixed interest rate of 10.25%, payable in 5 years, monthly principal instalments of $8,501. | | **329,095** | | 357,265 |
| Obligations under capital leases, interest rates varying from 0.00% to 15.46%, payable in average monthly instalments of $2,108 ($2,261 in 2007), maturing at different dates until November 2010 | | **47,273** | | 55,249 |
| Refundable contribution obtained from a Federal subsidy program available for small and medium enterprises, without pledge or interest, payable in 8 consecutive biannual instalments 2 years after the project ends. | | **52,500** | | 52,500 |
| | | **3,789,734** | | 4,238,281 |
| Current portion of long-term debt | | **943,199** | | 942,969 |
| | **$** | **2,846,535** | $ | 2,946,263 |

Under these mortgage loans, the company is required to maintain certain financial ratios.

## *7 - CAPITAL STOCK AND WARRANTS*

| | November 30 2007 | May 31 2007 |
|---|---|---|
| **Issued and fully paid** | | |
| 37 330 172 common shares (36 729 547 as of May 31, 2007) | **$ 24,537,994** | $ 23,119,647 |
| 31 618 warrants | **62,825** | 62,825 |
| | **$ 24,600,819** | $ 23,182,472 |

| | Number of shares | Consideration |
|---|---|---|
| **Common Shares** | | |
| Balance as of May 31, 2005 | 25,594,805 | $ 10,656,737 |
| Issued following the conversion of debentures | 3,800,000 | 3,881,512 |
| Issued for cash | 600,000 | 600,000 |
| Issued as settlement of expenses | 288,188 | 288,188 |
| Issued following the exercise of stock options | 733,375 | 416,499 |
| Issued following the exercise of warrants | 3,275,922 | 1,159,073 |
| Balance as of May 31, 2006 | 34,292,290 | 17,002,009 |
| Issued following private placement | 1,500,000 | 4,500,000 |
| Issued following the exercise of stock options | 881,875 | 1,313,757 |
| Issued following the exercise of warrants | 55,382 | 303,881 |
| Balance as of May 31, 2007 | 36,729,547 | 23,119,647 |
| Issued following the exercise of stock options | 600,625 | 1,418,348 |
| Balance as of November 30, 2007 | 37,330,172 | $ 24,537,994 |

## *8 - STOCK-BASED COMPENSATION PLAN*

The Company has initiated a stock-based compensation plan for administrators, officers, employees and consultants.

On October 3rd 2007, the Company revised the exercise price of stock options outstanding granted to employees (non-officers) between May 1st, 2007 and June 6, 2007 at a price of $5.50 per share in accordance with CICA Handbook Section 3870, *Stock-Based Compensation and Other Stock-Based Payment*. The modification of the exercice price of the options has been treated as if it were an exchange of the original award for a new award. This modification resulted in an additional expense of $44,303. From this amount, $34,809 has been recorded as an expense in the earnings of the quarter ended November 30, 2007. The remaining $9,494 will be amortized over the remaining periods when the rights will be acquired by non-officers employees.

Activities within the plan are detailed as follows:

| | **November 30, 2007** | | May 31, 2007 | |
|---|---|---|---|---|
| | **Number of options** | **Weighted average exercise price** | Number of options | Weighted average exercise price |
| | | **$** | | $ |
| Options outstanding, beginning of year (a) | **4,970,000** | **2,40** | 3,703,875 | 0,45 |
| Granted | **460,000** | **6,55** | 2,597,500 | 4,89 |
| Exercised | **(600,625)** | **0,85** | (881,875) | 0,32 |
| Cancelled | **(85,250)** | **2,64** | (449,500) | 2,84 |
| Options oustanding, 6 months period ended November 30, 2007 | **4,744,125** | **3,00** | 4,970,000 | 2,58 |
| Exercisable options, 6 months period ended November 30, 2007 | **2,307,050** | **1,91** | 1,618,375 | 0,84 |

(a): The 4,970,000 options outstanding at the beginning of the year includes 485,000 stock options that underwent a revision in their exercise price from $7.25 on May 31st 2007 to $5.50 on October 3rd 2007.

| | | | | | **November 30, 2007** |
|---|---|---|---|---|---|
| | **Options outstanding** | | | **Exercisable options** | |
| | **Weighted average exercise price** | **Weighted remaining contractual life outstanding** | **Number of options outstanding** | **Number of options exercisable** | **Weighted average exercise price** |
| | **$** | | | | **$** |
| **0.25** | 0,25 | 2,12 | 1,612,125 | 1,108,625 | 0,25 |
| **0.75 to 1.00** | 0,99 | 3,03 | 467,000 | 346,500 | 0,99 |
| **2.60 to 3.00** | 2,63 | 3,53 | 890,000 | 405,250 | 2,63 |
| **3.50** | 3,50 | 3,88 | 40,000 | 40,000 | 3,50 |
| **4.25 to 4.50** | 4,25 | 4,12 | 20,000 | 3,000 | 4,25 |
| **5.50 to 5.75** | 5,81 | 1,58 | 1,005,000 | 224,000 | 5,59 |
| **7.25 à 7.50** | 7,30 | 4,27 | 585,000 | 179,675 | 7,30 |
| **8.50** | 8,50 | 4,42 | 125,000 | - | - |
| | **3,08** | **2,71** | **4,744,125** | **2,307,050** | **1,91** |

## *9 - 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.

The Company sales are attributed based on the customer's area of residency:

| | Three month ended November 30, | | Six month ended November 30, | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| Canada | **$ 214,523** | $ 205,273 | **$ 244,083** | $ 224,640 |
| United States | **1,138,609** | 1,158,363 | **2,276,664** | 2,122,550 |
| Europe | **339,887** | 503,618 | **792,000** | 994,597 |
| Asia / Oceania | **475,789** | 80,342 | **941,397** | 157,298 |
| | **$ 2,168,809** | $ 1,947,596 | **$ 4,254,145** | $ 3,499,085 |

**Information about major customers**

During the six month period ended November 30 2007, the Company realized sales amounting to $1,701,230 from four costumers ($1,453,805 from five costumers in 2007).

## *10 - CORRESPONDING CONSOLIDATED FINANCIAL STATEMENTS*

Some comparative figures have been reclassified to conform with the presentation adopted in this period.