Management Discussion and Analysis

Three-month period ended May 31, 2011

Consolidated Financial Statements

(Unaudited)

Three-month periods ended May 31, 2011

Management Analysis of the Financial Situation and Operating Results

Management Discussion and Analysis

Three-Month Period Ended May 31, 2011

INTRODUCTION

This management's discussion and analysis ("MD&A") comments on the financial results and the financial situation of of Neptune Technologies & Bioressources Inc. ("Neptune" or "the Company") including its subsidiaries, Acasti Pharma Inc. ("Acasti") and NeuroBioPharm Inc. ("NeuroBioPharm") for the three-month periods ended May 31, 2011 and 2010. This MD&A should be read in conjunction with our condensed consolidated interim financial statements for the three-month period ended May 31, 2011 and with our consolidated audited financial statements and the accompanying notes thereto and MD&A as at February 28, 2011. For additional discussion regarding related-party transactions, contractual obligations, disclosure controls and procedures, internal control over financial reporting, critical accounting policies and estimates, recent accounting pronouncements, and risks and uncertainties, also refer to the Annual Report and the Annual Information Form for the period ended February 28, 2011, as well as registration statements and other public filings, which are available on SEDAR at www.sedar.com or on EDGAR at www.sec.gov.

In this MD&A, financial information for the three-month periods ended May 31, 2011 and 2010 is based on the consolidated interim financial statements of the Company, which was prepared in accordance with International Financial Reporting Standards ("IFRS"), and is presented in Canadian dollars unless otherwise specified. In accordance with its terms of reference, the Audit Committee of the Company's Board of Directors reviews the contents of the MD&A and recommends its approval to the Board of Directors. The Board of Directors has approved this MD&A, on August 12, 2011. Disclosure contained in this document is current to that date, unless otherwise noted.

On January 1, 2011, as issued by the International Accounting Standards Board ("IASB"), IFRS became the basis of preparation of financial statements for publicly accountable enterprises in Canada. The information presented in this MD&A, including information relating to comparative periods in 2010, is presented in accordance with IFRS unless otherwise noted as being presented under Canadian generally accepted accounting principles ("Canadian GAAP") and not IFRS. A discussion regarding the Company's transition to IFRS, including the impact of significant accounting policies choices and the selection of IFRS 1 elections and exemptions, can be found in the "International Financial Reporting Standards" section of this MD&A and in note 15 of the consolidated interim financial statements.

FORWARD-LOOKING STATEMENTS

Certain comments and statements contained in this MD&A constitute forward-looking statements that reflect Neptune's objectives, estimates and expectations. These statements may include the use of terms such as "believe", "anticipate", "estimate", "looking ahead" and "expect", as well as the use of verbs in the conditional and future tenses. By their nature, these forward-looking statements involve certain risks and uncertainties. As a consequence, results could differ materially from the Company's expectations. The MD&A for the year ended February 28, 2011, as well as our Annual Information Form under the heading Risk Factors – available on SEDAR at www.sedar.com – deals with risks which could cause significant differences between the results contained herein and Neptune's expectations. The forward-looking statements contained in this MD&A reflect our current assumptions and, accordingly, are subject to change. However, we disclaim all intentions and assume no obligation to update or revise the forward-looking statements, whether based on new information, events or other factors, unless required to do so by applicable securities' laws.

BUSINESS OVERVIEW

As a result of a reorganization of activities during fiscal 2009, the Company has three reportable operating segments structured in three distinctive legal entities: the first is producing and commercializing nutraceutical products (Neptune), the second is the development and commercialization of pharmaceutical products for cardiovascular diseases applications (Acasti Pharma) and the third is the development and commercialization of pharmaceutical products for neurological diseases applications (NeuroBioPharm).

NEPTUNE

The Company continues to expand its customer base worldwide and is expecting revenue growth driven by repeat demand from existing customers and incoming demand from new customers from North America, Europe and Asia.

Immediately after the end of the quarter, the Company appointed Raj Nakra Associates as an agent for the Indian market. Raj Nakra Associates already represents worldwide recognized brands and will bring along great knowledge of the Indian market within the pharmaceutical industry, dietary supplement and functional food industry.

The Company also finalized agreements with two major US distributors to sell Neptune Krill Oil through their well established network of US national retailers and wholesalers. These two distributors which cumulate over 70 years of industry expertise are both strong brand promoters and innovators in various categories of supplements that are substantiated with proven science. The two distributors represent together close to 30% of the US mass market nutraceutical business, accessing more than 100,000,000 Americans with nationwide market coverage in over 54,000 retailers.

The Company presented novel innovative product opportunities customized for dietary supplements, functional and medical foods and introduced a new pipeline of novel formulations containing its proprietary marine omega-3 phospholipids enhanced with validated bioactive ingredients targeted to specific health applications. Neptune pre-launched its new product, Eco Krill Oil™ ("EKO™") to its clientele at Health Ingredient Europe 2010 in Madrid. The pre-launch was well received by the market. EKO™ is a product similar to NKO® with slightly lower concentrations and a lower selling price. Moreover, EKO™ sells at a lower price than competing krill oil products and presents better specifications than most of the competitor's products. The Company is also testing the industry's reception of a new biomass extract generated from Neptune's research and development program targeting new cognitive health indications. The Company will also be developing pilot commercial products for functional food applications including juice, fruit berries, fruit paste and protein bars for both human and animal health.

Neptune also announced in May 2011 that the Company and its marine derived products successfully completed an extensive and rigorous review of key environmental claims by NSF International. Neptune has always been committed to providing the best natural marine-derived products with clinically proven health benefits while prioritizing environmental responsibility. Sustainability of krill, the primary biomass used by Neptune, is of paramount importance for the Company and its existing and potential strategic partners. The NSF certification will strengthen considerably its negotiation power and its position in the increasingly demanding krill industry. The audit was conducted to ensure clarity and conformance with the strict criteria of the International Organization for Standardization (IS0) 14021: Environmental labels and declaration as well as Federal Trade Commission (16 CFR PART 260): Guides for the Use of Environmental Marketing Claims. Based on the successful results of this audit and due diligence, Neptune has been approved by NSF to make the following five environmental claims:

- Neptune only uses krill captured by fisheries that follow the Antarctic Treaty (1961) rules and respect the annual capture quota of the Commission for the Conservation of Antarctic Marine Living Resources(CCAMLR).
- Neptune obtains krill from fisheries that use only mid-water trawl, which reduces the impact on other species as by-catch.
- Neptune krill oils are alternative sources of marine omega-3 which reduce the pressure on fish populations.
- Neptune's OceanExtract™ patented process recycles an annual 99% of the extraction solvent used during the manufacture of Neptune krill oils.
- Neptune only uses krill that is 100% traceable to the source of capture.

During the first quarter, Neptune continued its investor relations efforts in order to increase Neptune's visibility toward investment community in Canada and the United States, with the objective of reaching higher trading volume on NASDAQ and TSX-V. More specifically, the Company presented on March 15, 2011 at the 23rd annual Roth OC Growth Stock Conference in California. Over 400 companies selected by Roth Capital Partners were presenting at the Conference and over 1,000 buy-side investors attended the Conference.

During the first quarter, the Company realised a non-brokered private placement of $12,438 through the offering of common shares at a price of $2.15 CAD or $2.25 USD plus 25% warrant coverage at $2.65 CAD or $2.75 USD. The private placement was done in two portions, the first portion of $10,938 on May 3rd and the second portion of $1,500 on May 13, 2011. In connection with the offering, Neptune issued to American investors a total of 2,722,222 common shares at a price of $2.25 USD per share and US warrants to purchase up to 680,556 additional shares at a price of $2.75 USD for a period of 18 months following their issuance. Neptune also issued to Canadian investors 3,062,835 common shares at a price of $2.15 CAD per share and Canadian warrants to purchase up to 765,709 additional shares at a price of $2.65 CAD for a period of 18 months following their issuance. In total Neptune issued 5,785,057 shares and 1,446,265 warrants. Immediately following the end of the first quarter, Officers and Directors exercised 550,000 options at a strike price of $2.60 representing a amount of $1,430 in aggregate cash proceeds.

Neptune's current annual production capacity of NKO® is 130,000 kg. The sustained revenue growth in the nutraceutical market generated by recently announced partnership as well as overseas business development as always been in line with the plant capacity expansion which is now Neptune's top priority. Neptune plans to expand its production capacity to reach, in the first phase; a production of 280,000 kg per year. The expansion should be finalized during fiscal year 2012-2013. The project cost will be up to 70% financed by grant, loan and long term debt.

On the R&D front, the Company presented on March 24th 2011 at the 2011 Scientific Sessions of the American Heart Association its clinical results on the superior absorption of Neptune Krill Oil (NKO) as compared to competitive products. The Company sustained its research initiatives by permanently investing in product development, pre and clinical studies to validate health benefits of its products.

As a result, Neptune is able to leverage scientific results demonstrating health benefits specific to the proprietary composition of Neptune Krill Oil - NKO® on prevalent human conditions, such as premenstrual syndrome, high cholesterol, inflammation, osteoarthritis and attention deficit hyperactivity disorder. Moreover, the clinical trials for functional/medical food applications with the multinational corporations Yoplait and Nestlé are terminated and results are expected to be known by fall 2011. In accordance with its scientific strategy, Health Canada approved, exclusively for NKO®, therapeutic and risk reduction claims, corrobating aspects of Neptune's clinical research and substantiating NKO® safety and effectiveness on cardiovascular health, inflammation and women's health.

In regards to its intellectual property protection, the Company has always had a firm policy to protect its intellectual property rights including its patents, trademarks and trade secrets, with every legal means available. Recently, certain of Neptune's competitors have been marketing, advertising and selling their finished krill-based products claiming benefits based on Neptune's research or by infringing on patents for which Neptune has exclusive rights. Neptune, duly determined to enforce its rights, is taking legal actions against those companies in order to protect its intellectual property.

ABOUT THE SUBSIDIARIES

Acasti Pharma Inc. ("Acasti")

The status of the Company's new pharmaceutical products; Over-the-counter (OTC), medical foods, and prescription drug products, is as follows:

During the first quarter of the 2011 fiscal year, the Company made significant progress in its scientific research and development programs and has achieved several value-creating milestones within the over-the-counter ("OTC"), medical food and prescription drug programs (Rx). Acasti has advanced negotiations for a deal with an undisclosed partner to commercialize an OTC product. The product is presently in final development and is scheduled for market launch in 2011. Negotiations are ongoing with more selected pharmaceutical partners looking at licensing rights for further development and commercialization of Rx, OTC and Medical Foods.

Acasti reported preclinical results showing that its leading drug candidate, CaPre™, performed better than the currently marketed drug, Lovaza®, by increasing the HS-Omega-3 Index® 105% more than Lovaza®. The index measures an emerging risk factor for sudden death from coronary heart disease. These results indicate that on a per gram basis [total eicosapentaenoic acid (“EPA”) and docosahexaenoic acid (“DHA”)], CaPre™ scored 105% higher than Lovaza® on the HS-Omega-3 Index®; CaPre™ increased the index by 63% versus a 31% increase by Lovaza®. Considering that a unit increase of the HS-Omega-3 Index® is associated with about a 40% lower risk for sudden cardiac death (C. Albert et. al., NEJM, 2002), the current data suggest that a low dose of CaPre™ may help to prevent this condition and other heart-related morbidities. Lovaza® is the only FDA approved prescription fish oil solely indicated for the treatment of severe hypertriglyceridemia (very high triglycerides >500mg/dl).

Acasti completed the preclinical program designed to compare the cardiometabolic effects of Acasti’s drug candidate CaPre™ versus prescription drug Lovaza®. Blood lipids were monitored in two animal models in order to assess and compare the efficacy of CaPre™ and Lovaza® over a 12-week treatment period. A low daily human equivalent dose of 1g CaPre™ reduced LDL-C (bad cholesterol) levels by 40% and increased HDL-C (good cholesterol) by 180% in a normal rat model (“SD”) while 4gr of Lovaza® did not show any significant effect. An even lower daily human equivalent dose of 0.5g CaPre™ was shown to be as efficient as 4g of Lovaza® in reducing triglycerides levels by 40-50% in obese rats with severe diabetes and high triglycerides (“ZDF”). The results suggest that a low (0.5g to 1g) daily dosing of CaPre™ is more effective than 4g Lovaza® in elevating HDL-C and lowering LDL-C and triglycerides. Taken together with the superior effects on regulating glucose tolerance and HS-Omega-3 index the data suggest that CaPre™ may be an effective alternative for the management of cardiometabolic disorders due to its therapeutic versatility and multiple applications including also a superiority over Lovaza® on Omegas-3 Index and impaired glucose tolerance.

Acasti entered the pharmaceutical market with the pre-launch of Onemia™, the company’s first medical food, which was announced on October 21, 2010 at the Cardiometabolic Health Congress meeting in Boston. Onemia™ is a pharmaceutical marine-based omega-3 phospholipid concentrate classified as a novel medical food, regulated by FDA and clinically proven safe and effective for the management of unmet medical needs associated with chronic cardiometabolic disorders. As a medical food, it is intended to fulfill the unique omega-3 and phospholipid requirements of illnesses associated with cardiometabolic disorders. Onemia™ is formulated in a hard gelatin capsule to be taken alone or in combination with currently approved and prescribed cardiovascular drugs administered only under physician supervision and dispensed by medical recommendation and in some cases by prescription, in compliance with applicable FDA regulations. Onemia™ is manufactured by Neptune and sold to Acasti.

Onemia™ targets cardiometabolic disorders and will be well positioned in this multibillion dollar market. Onemia™ will first be distributed through subcontracted marketing and direct sale approach focused in most major metropolitan areas in the U.S. and move nationwide in a second phase. Onemia™ will later be available in pharmacies behind-the-counter through distributors. Acasti is also currently seeking partners to commercialize Onemia™ outside the United States.

The success of Onemia™ will provide short-term revenues which will contribute to Acasti’s further research and development projects while establishing a validation of Acasti’s omega-3: phospholipid pipeline in the healthcare industry paving the road for CaPre™, the prescription drug candidate in development. Onemia™ is the first of a line of products Acasti will commercialize.

NeuroBioPharm Inc. (“NeuroBioPharm” or “NeuroBio”)

The status of the Company’s new pharmaceutical products; Over-the-counter (OTC), prescription medical foods, and prescription drug products, is as follows:

During the first quarter of 2012, the Company made significant progress in its scientific research and development programs. NeuroBiopharm (NBP) completed a pre-clinical study in collaboration with NeuroCode AG, (Wetzlar, Germany), a team of recognized experts dedicated to specific profiling of active pharmaceutical ingredients by means of electroencephalographic (EEG) power spectra of conscious free moving rats. The objectives of the trial were a) to determine the nature and extent of effect of the new NBP medical food candidate NKPL on the electrical activity of the brain, and b) to characterize the EEG effects in relation to standard central nervous system (CNS) drugs. At the lowest daily dose of 250mg, NKPL showed a significant effect strongly resembling (by 80% and 100%) the activity of methylphenidate or Ritalin®, a drug recognized as the gold standard for the treatment of Attention Deficit Hyperactivity Disorder (ADHD). This data provides evidence that NKPL, a highly concentrated phospholipid extract, may be an effective treatment for children with ADHD and a safe alternative to Ritalin®. NeuroBio and Neptune are advancing their research's with new developed products aimed to improve the cognitive and emotional health of children and adults, which will be concluded in the near future

For NeuroBioPharm, a medical candidate and a drug candidate for non-GLP development and chemical analyses were initiated in fiscal period ending February 28, 2009. Initial medical candidate batches were standardized within allowed deviation limits. Preclinical testing has been initiated evaluating toxicity and pharmacokinetics.

MPL VI, MPLVII, MPL VIII and MPL IX are new products in the pipeline of NeuroBioPharm in the process of research and development as prescription drugs, OTC and medical foods for the safe and effective management of cognitive, behavioral and neurodegenerative disorders.

All together, MPL VI, MPLVII, MPL VIII and MPL IX will enter a more than $20 billion market and with each product having, we believe, the potential to achieve market sales up to $50 million at five years' post-launch.

Product	**Channel**	**Indication**	**Stage of development**	**Launch Year**
MPL VI	Medical food	Prevention of cognitive decline	End of clinical Phase IV	2012/2013
MPL VII	OTC	Memory, concentration and learning disorders	Preclinical	2012/2013
MPL VIII	Medical food	ADHD	Preclinical	2012/2013
MPL IX	Prescription Drug	Alzheimer's disease	Product development	n/a

NeuroBio is establishing itself with international and strategic industrial partners who are seeking safe and effective products for the maintenance of cognitive health for the OTC market, the clinical dietary management of cognitive decline and neurodevelopmental problems as medical foods and finally, prescription drugs for the treatment of neurodevelopmental and neurodegenerative disorders. In relation to the latter, upon receipt of the final clinical report for the Alzheimer study, NeuroBioharm will negotiate the terms of a License Agreement with the multinational Corporation transferred to NeuroBio by Neptune. The terms to be negotiated will include the agreed commercialization deal defining milestone payments and minimum annual royalty conditions.

The Company's authorized capital consists of an unlimited number of Class A, B, C, D, E, F, G and H shares with no par value.there are 8,501,000 Class A Shares, 2,500,000 Class B Shares, 17,500,000 Class G Shares and 26,000,000 Class H Shares issued and outstanding. In addition, there are 6,000,000 Series 2011-1 Warrants, 3,450,075 Series 2011-2 Warrants, 8,050,175 Series 2011-3 Warrants issued and outstanding, and 546,250 stock options issued under NeuroBio Stock Option Plan. Below are the chronological steps that led to the company's authorized capital:

1) On October 15, 2008, Neptune transferred to NeuroBio the License. In exchange for the License, Neptune issued a total of 100 Class A shares at a price of $0.01 per share and 45,000,000 Class E shares at a price of $0.10 per share (one percent (1%) of the Class A and Class E shares were issued to a company controlled by Neptune's president and CEO and the remaining balance of the Class A and Class E shares were issued to Neptune). On December 24, 2008, the 45,000,000 Class E shares were exchanged for 5,000,000 Class B Shares, 35,000,000 Class C Share, 7,000,000 Series 4 Warrants and 3,000,000 Series 5 Warrants by the respective holders in the same proportion.

2) On April 12, 2011, the Company proceeded with the Reverse Split on a 2:1 basis. Following the Reverse-Split, the 100 Class A Shares having a deemed value of $0.01 each were consolidated on 2:1 basis resulting in 50 Class A shares at a deemed value of $0.02 each.

3) Following the Reverse-Split, the 5,000,000 Class B Shares having a deemed value of $0.20 each were consolidated on 2:1 basis resulting in 2,500,000 Class B Shares at a deemed value of $0.40 each.

4) Following the Reverse-Split, the 35,000,000 Class C Shares having a deemed value of $0.10 each were consolidated on 2:1 basis resulting in 17,500,000 Class C shares at a deemed value of $0.20 each.

5) On April 12, 2011, immediately following the Reverse-Split, NeuroBio purchased by mutual agreement the resulting 50 Class A Shares through the issuance of 1,000 new Class A Shares at a price of $0.10 per share, of 26,000,000 Class H Shares at a price of $0.45 per share and of 6,000,000 Series 2011-1 Warrants. This transaction was carried out in accordance with the rollover provisions allowed under tax legislation and based on an independent calculation of the fair market value of the Company evaluated at $16,500. On the same date, immediately following the Reverse-Split, NeuroBio exchanged, by mutual agreement, the resulting 17,500,000 Class C Shares, 3,500,000 Series 4 Warrants and 1,500,000 Series 5 Warrants through the issuance of 17,500,000 Class G Shares at a price of $0.20 per share, 3,450,075 Series 2011-2 Warrants and 8,050,175 Series 2011-3 Warrants.

6) On April 12, 2011, Neptune converted its account receivable from NeuroBio in the amount of $850 into 8,500,000 Class A shares at a price of $0.10 per share.

Neurobio's available funds are provided by the parent company, Neptune, on an ongoing basis. Neurobio's available funds will be used to execute the Company's business plan for the next twelve (12) months. The principal use of available funds over the upcoming year is estimated as follows: $400 for prescription drug development program and $350 for OTC and Medical Food products development and commercialization, while intellectual property protection, research and development costs, laboratories rental and spending, administration expenses and salaries sum up to $150. Neurobio does not intend to raise additional proceeds to fund any anticipated negative operating cash flow and does not expect any material capital expenditure for the next twelve months, except as disclosed above.

Selected consolidated interim financial information

The following tables set out selected financial information for the three-month periods ended May 31, 2011 and 2010. This information has been derived from the condensed consolidated interim financial statements for the three-month periods ended May 31, 2011 and 2010 and the notes thereto.

(In thousands of dollars, except per share data)

	Three-month periods ended May 31	
	2011 (Unaudited)	2010 (Unaudited)
	$	$
Revenue from sales	4,283	4,144
EBITDA[1]	(168)	664
Net profit (loss)	(1,259)	494
Net earnings (loss) per share:		
Basic	(0.028)	0.013
Diluted	(0.028)	0.012
Total assets	33,914	22,825
Working capital[2]	20,818	9,562
Shareholder equity	20,854	12,107
Long term debt	4,537	5,415
Key ratios (% of revenue):		
Gross profit	52%	59%
Selling expenses	15%	6%
General and administrative expenses	42%	31%
Research and development expenses (net of tax credits)	17%	13%
EBITDA	(4%)	16%

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 IFRS requirements, the results may not be comparable to similar measurements presented by other public companies. Neptune obtains its EBITDA measurement by adding to net income (loss), financial expenses, amortization, income taxes, foreign exchange, loss from sale of property, plant and equipment and impairment of property, plant and equipment, incurred during the fiscal year. Neptune also excludes the effects of non-monetary transactions recorded, such as share-based compensation for its EBITDA calculation.

2 The working capital is presented for information purposes only and represents a measurement of the Company's short-term financial health mostly used in financial circles. The working capital is calculated by subtracting current liabilities from current assets. Because there is no standard method endorsed by IFRS, the results may not be comparable to similar measurements presented by other public companies.

RECONCILIATION OF NET PROFIT TO EARNINGS BEFORE INTEREST, TAXES, DEPRECIATION AND AMORTIZATION (EBITDA)

A reconciliation of EBITDA is presented in the table below. The Company uses adjusted financial measures to assess its operating performance. Securities regulations require that companies caution readers that earnings and other measures adjusted to a basis other than IFRS do not have standardized meanings and are unlikely to be comparable to similar measures used by other companies. Accordingly, they should not be considered in isolation. The Company uses EBITDA to measure its performance from one period to the next without the variation caused by certain adjustments that could potentially distort the analysis of trends in our operating performance, and because the Company believes it provides meaningful information on the Company financial condition and operating results.

Neptune obtains its Consolidated EBITDA measurement by adding to net income (net loss), financial expenses, amortization, income taxes, foreign exchange, loss from sale of property, plant and equipment and impairment of property, plant and equipment, incurred during the fiscal year. Neptune also excludes the effects of non-monetary transactions recorded, such as share-based compensation, for its consolidated EBITDA calculation. The Company believes it is useful to exclude these items as they are either non-cash expenses, items that cannot be influenced by management in the short term, or items that do not impact core operating performance. Excluding these items does not imply they are necessarily nonrecurring.

Reconciliation of non-IFRS financial information

(Expressed in thousands, except per share amounts)

	Three-month period ended May 31	
	2011 (Unaudited)	2010 (Unaudited)
	$	$
Net profit (loss)	(1,259)	494
Add (deduct):		
Amortization	192	185
Financial expenses	87	(140)
Stock-based compensation	588	78
Foreign exchange (gain) loss	(128)	42
Change in fair value of financial instruments	352	5
EBITDA	(168)	664

SELECTED CONSOLIDATED QUARTERLY FINANCIAL DATA

Fiscal year ending February 28, 2012

	Total	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	$	$	$	$	$
Revenue	4,292	4,292			
EBITDA[1]	(168)	(168)			
Net profit (loss)	(1,259)	(1,259)			
Basic earnings per share	(0.028)	(0.028)			
Diluted earnings per share	(0.028)	(0.028)			

Fiscal year ended February 28, 2011

	Total	First Quarter	Second Quarter[1]	Third Quarter	Fourth Quarter
	$	$	$	$	$
Revenue	16,685	4,162	4,114	4,289	4,120
EBITDA[1]	259	664	732	135	(1,272)
Net profit	533	494	274	1,801	(2,036)
Basic earnings (loss) per share	0.01	0.01	0.01	0.044	(0.048)
Diluted earnings (loss) per share	0.01	0.01	0.01	0.043	(0.048)

Note: The financial information prepared for all periods in 2011 except for Q1 were prepared in accordance with Canadian GAAP.

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 IFRS requirements, the results may not be comparable to similar measurements presented by other public companies. Neptune obtains its EBITDA measurement by adding to net earnings, financial expenses, amortization, income taxes, foreign exchange, loss from sale of property, plant and equipment and impairment of property, plant and equipment, incurred during the fiscal year. Neptune also excludes the effects of non-monetary transactions, such as share-based compensation for its EBITDA calculation.

SEGMENT DISCLOSURES

The Company has three reportable operating segment structured in three distinctive legal entities: the first is producing and commercializing nutraceutical products (Neptune), the second is the development and commercialization of pharmaceutical products for cardiovascular diseases (Acasti Pharma) and the third is the development and commercialization of pharmaceutical products for neurological diseases (NeuroBioPharm).

For the first quarter ended May 31, 2011, all revenues are generated by the nutraceutical segment with the exception of a small amount of revenue from a research contract in NeuroBioPharm. The continuity of all operations of the consolidated group is presently supported by Neptune revenues and recent financings in both Neptune and Acasti. Acasti operations are at the commercialization stage for the prescription medical food product, Onemia™, at the partnership negotiation stage for the OTC product, Vectos™, and at the Phase II clinical trial for prescription drug program, CaPre™. As for NeuroBioPharm, operations are directed to product development in the Over-the-counter (OTC), prescription medical foods, and prescription drug products as well as pre-clinical research.

At this moment, NKO® and EKO™ are the only products sold in the nutraceutical market by Neptune. NKO® and EKO™ presently generate same gross margins in the market where they are sold. In the case of Acasti and NeuroBioPharm, several products have been developed but none are presently generating revenue since Acasti's recently begin its commercialization phase. Acasti Pharma and NeuroBioPharm have adopted the same development strategy as Neptune which is, to generate short term revenue with the OTC and prescription medical food products in their case. It is impossible for now to evaluate a precise timeline for the launch of any of NeuroBioPharm products as negotiation are ongoing with potential partners.

The consolidated treasury flows are explained in the following section. Except as described below, significant consolidated cash flows are consistent with those of the nutraceutical segment. In regards to the cardiovascular and neurological segments during the first quarter, please refer to the Sedar fillings for both Acasti and NeuroBioPharm.

Selected financial information by segment is as follow:

The following table show selected financial information by segments :

Three-month period ended May 31, 2011

	Nutraceutical	Cardiovascular	Neurological	Total
(Expressed in thousands)	$	$	$	$
Revenues from sales and research contracts	4,283	-	9	4,292
EBITDA	774	(728)	(214)	(168)
Net profit (loss)	(70)	(892)	(297)	(1,259)
Total assets	30,678	3,104	132	33,914
Working capital	18,495	2,399	(76)	20,818
EBITDA calculation				
Net profit (loss)	(70)	(892)	(297)	(1,259)
add (deduct)				
Amortization	189	3	-	192
Financial expenses	87	-	-	87
Stock-based compensation	357	148	83	588
Foreign exchange (gain) loss	(141)	13	-	(128)
Change in fair value in financial instruments	352	-	-	352

The following table show selected financial information by segments :

Nine-month period ended May 31, 2010

	Nutraceutical	Cardiovascular	Neurological	Total
(Expressed in thousands)	$	$	$	$
Revenues from sales and research contracts	4,145	-	-	4,145
EBITDA	1,071	-338	(69)	664
Net profit (loss)	930	-365	(71)	494
Total assets	17,611	709	204	18,724
Working capital	5,381	299	204	5,884
EBITDA calculation				
Net profit (loss)	930	(365)	(71)	494
add (deduct)				
Amortization	183	2	-	185
Financial expenses	(140)	-	-	(140)
Stock-based compensation	56	20	2	78
Foreign exchange loss	42	-	-	42
Change in fair value of financial instruments	–	5	-	5
EBITDA	1071	(338)	(69)	664

Operating results

Revenue

Revenue for the first quarter continued to increase and amounted to $4,292 for the three-month period ended May 31, 2011, representing an increase of 3% compared to $4,144 for the three-month period ended May 31, 2010. This increase in the Company's revenue is mainly attributable to the aggressive penetration of the American, European and Asian/Australian markets due to the increasing awareness and recognition of NKO® and EKO™. Even with the increase competitiveness in the market especially in the pricing and the devaluation of the US currency, the Company has still managed to maintain its gross margin above 50% and growth in its revenues.

Virtually all of the Company's sales are derived from the nutraceutical segments.

Gross Profit

Gross profit is calculated by deducting the cost of sales from revenue. Cost of sales consists primarily of costs incurred to manufacture products. It also includes related overheads, such as depreciation of property, plant and equipment, certain costs related to quality control and quality assurance, inventory management, sub-contractors and costs for servicing and commissioning.

The following table shows gross profit in dollars as well as a percentage of revenue for the first quarter of 2011 and 2010:

	Three Months Ended May 31,	
	2011	2010
Gross profit	**2,225**	2,447
Gross profit as % of revenue	**52%**	59%

Gross profit as a percentage of revenue was 52% for the first quarter of 2011 compared to 59% for the same period in 2010. The decrease in the first quarter of 2011 was due to a decrease in the average US currency of 6%, the integration of new biomass as well as selling price reduction due to increase competition. The Company is focusing on maintaining productivity by looking in multiple areas of the production. The expansion program that will take place in the next 12 months will contribute to increase the productivity.

Selling expenses

Selling expenses for the first quarter of 2011 and 2010 were as follows:

	Three Months Ended May 31,	
	2011	2010
Selling expenses	**648**	258
Selling expenses as % of revenue	**15%**	6%

Selling expenses amounted to $648 in the first quarter of 2011, an increase of $390 or 150% compared to the corresponding period in 2010. The increase over 2010 is largely due to the addition of new employees in sales and marketing as well as more presence in different trade shows around the world.

General and Administrative Expenses

G&A expenses for the first quarter of 2011 and 2010 were as follows:

	Three Months Ended May 31,	
	2011	2010
General and administrative expenses	**1,812**	1,291
General and administrative expenses as % of revenue	**42%**	31%

G&A expenses amounted to $1,812 in the first quarter of 2011, an increase of $521 or 40% compared to the corresponding period in 2010. The increase over 2010 is all explained by increased stock based compensation expense of $500 due to the increased value of Neptune' share on the market.

Research and Development Expenses

R&D expenses and R&D expenses, net of tax credits for the first quarter of 2011 and 2010 were as follows:

	Three Months Ended May 31,	
	2011	2010
Research and development expenses net of tax credits	**736**	520
Research and development expenses, net of tax credits as % of revenue	**17%**	13%

R&D expenses amounted to $736 in the first quarter of 2011, an increase of $216 or $42% compared to the same period in 2010. This increase is mainly attributable to investments in improvement of the extraction process as well as research and experimentation with new biomass.

Finance costs

Finance costs for the first quarter of 2011 and 2010 were as follows:

	Three Months Ended May 31,	
	2011	2010
Finance costs	**439**	(134)
Finance costs as % of revenue	**10%**	(3%)

Finance costs amounted to $439 in the first quarter of 2011, an increase of $573 compared to the same period in 2010. This increase is mainly attributable to the impact of the adoption of IFRS, resulting in certain financial instruments being reclassified liabilities. The variation is primarily due to the change in fair value of financial instruments.

Foreign exchange gain (loss)

Foreign exchange gain (loss) for the first quarter of 2011 and 2010 were as follows:

	Three Months Ended May 31,	
	2011	2010
Foreign exchange gain (loss)	**128**	(42)
Foreign exchange gain (loss) as % of revenue	**3%**	(1%)

Foreign exchange gain (loss) amounted to $128 in the first quarter of 2011, an increase of $170 compared to the same period in 2010. This increase is mainly attributable to the adequate protection in this year's quarter against the fluctuations of the US currency vs the Canadian currency.

Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA)

EBITDA decreased by $832 for the three-month period ended May 31, 2011 to $(135) compared to $664 for the three-month period ended May 31, 2010. The lower EBITDA for the three-month period ended May 31, 2011 when compared to the corresponding period of the previous year is attributable to higher selling expenses due to more hiring as well as more attendance to trade shows by the Neptune sales team. It is also due to much higher stock-based compensation expenses this year in the G&A expenses due to higher options valuation caused by the appreciation of the share price as compared to last year.

Net profit (Loss)

The Company realized a consolidated net loss for the three-month period ended May 31, 2011 of $(1,259) or $(0.028) per share compared to a net income of $494 or $0.013 per share for the three-month period ended May 31, 2010. The decrease in the net profit was mainly attributable to the increase in both selling and G&A expenses due to more hiring, more trade shows and higher stock-based compensation expense as well as lower exchange rate US to CDN in US recorded sales. It was also caused by a large difference in the finance costs between the two quarters due to a change in fair value of financial instruments affecting positively last year as opposed to this year.

Liquidity and Capital Resources

Operating Activities

During the three-month period ended May 31, 2011, the operating activities generated a decrease in liquidities of $720, compared to a decrease of $718 for the corresponding three-month period ended May 31, 2010. The difference in change in liquidities derived from the operating activities is mainly attributable to the lower earnings and the negative impact of the US to CDN exchange for the three month period ended May 31, 2011 over the corresponding period of 2010 compensated by the stock-based compensation expense as well as the net finance expense.

Investing Activities

During the three-month period ended May 31, 2011, the investing activities generated a decrease in liquidities of $6,491. This decrease is mainly due to the net purchase of short-term investments for $6,418.

Financing Activities

During the three-month period ended May 31, 2011, the financing activities generated an increase in liquidities of $10,753. This increase is mainly due to proceeds from the private placement financing for an amount of $11,517. This increase was slightly reduced by the long term debt repayment for $878.

Overall, as a result of cash flows from all activities, the Company increased its cash by $3,502 for the three-month period ended May 31, 2011.

At May 31, 2011, the Company's liquidity position, consisting of cash and short-term investments, was $13,433.

Also, at May 31, 2011, the Company had an authorized operating line of credit $2,000, all of which was available as well as an additional unused line of $200 for foreign exchange contracts.

The Company believes that its available cash and term deposits, expected interest income, research collaborations and licensing agreements, research tax credits, and access to capital markets should be sufficient to finance the Company's operations and capital needs during the ensuing fiscal year. However, in light of the uncertainties associated with the regulatory approval process, clinical trial results, commercialization of nutraceutical products and the Company's ability to secure additional licensing, partnership and/or other agreements, further financing may be required to support the Company's operations in the future.

Off Balance Sheet Arrangements and Contractual obligations

There was no material changes that affected our off-balance sheet arrangements and contractual obligations during the three-month period ended May 31, 2011.

FINANCIAL POSITION

The following table details the important changes to the balance sheet at May 31, 2011 compared to February 28, 2011:

Accounts	Increase (Reduction) (In Thousands of dollars)	Comments
Cash	3,542	See cash flows statement
Short-term investments	6,418	Purchase of short-term investments
Inventories	2,138	Purchase of raw material for increased demand
Accounts payable and accrued liabilities	637	Better credit terms with raw material suppliers
Long-term debt	(878)	Reimbursement

PRIMARY ANNUAL FINANCIAL RATIOS

	May 31 2011	February 28 2011	May 31 2010
Working Capital Ratio (current assets/current liabilities)[1]	4.64	2.67	2.05
Solvency Ratio (Debt Capital / Shareholders' Equity)[*2]	0.22	0.40	1.09

[*] including convertible debentures for 2010.

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 IFRS requirements, the results may not be comparable 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 IFRS requirements, the results may not be comparable to similar measurements presented by other public companies.

The Company's Working Capital Ratio improved during the period ended May 31, 2011 compared to the periods ended February 28, 2011 and May 31, 2010 mainly due to the private placement. The Company's solvency ratio improved during the period ended May 31, 2011 compared to the period ended February 28, 2011 and to May 31, 2010 mainly due to the decrease and increase of the Company's Debt and Shareholder's Equity, respectively.

RELATED PARTY TRANSACTIONS

Under the terms of an agreement entered into with a company controlled by an officer and director (which is also a shareholder of the Company), the Company is committed to pay royalties of 1% of its revenues in semi-annual instalments, for an unlimited period. The annual amount disbursed cannot exceed net earnings before interest, taxes and amortization of the Company on a non-consolidated basis. For the three-month period ended May 31, 2011, total royalties included in operating expenses amounted to $45, (three-month period ended May 31, 2010 - $41). As at May 31, 2011, the balance due to this company under this agreement amounts to $223 (February 28, 2011 - $178; March 1, 2010 - $175). This amount is presented in the balance sheet under accounts payable and accrued liabilities.

These transactions are measured at the exchange amount, which is the amount of consideration determined and accepted by the parties involved.

International Financial Reporting Standards

The Company's May 31, 2011 condensed consolidated interim financial statements are the Company's first consolidated interim financial statements prepared in accordance with International Accounting Standard 34, *Interim Financial Reporting* ("IAS 34"). The comparative periods included in these condensed consolidated interim financial statements have been restated to IFRS and the Company has applied IFRS 1, *First-time Adoption of International*

Financial Reporting Standards. The Company's previously issued interim and annual financial reports for periods prior to and including year-end February 28, 2011, were prepared in accordance with Canadian GAAP.

In preparing its consolidated interim financial statements in accordance with IFRS 1, the Company applied the mandatory exceptions and elected to apply the following optional exemptions from full retroactive application:

(i) Borrowing costs:

The Company has elected to apply the transitional provisions of IAS 23, *Borrowing Costs* to qualifying assets being acquired since the date of transition to IFRS.

(ii) Share-based payment:

The Company did not apply IFRS 2, Share-based Payment ("IFRS 2") to stock options that had vested as at March 1, 2010.

(iii) Designation of financial assets and financial liabilities:

The Company has elected to re-designate cash and cash equivalents and short-term investments from held-for-trading category to loans and receivables. As the historical cost carrying amount under IFRS equals the fair value of those instruments under Canadian GAAP at the date of transition, there is no adjustment resulting from this election.

(iv) Non-controlling interests:

The Company will apply prospectively from the date of transition to IFRSs:

- the requirement that total comprehensive income is attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance; and
- the requirements for accounting as equity transaction for changes in the parent's ownership interest in a subsidiary that do not result in a loss of control.

Consequently, the balance of non-controlling interest of nil under Canadian GAAP as at February 28, 2010 becomes the balance under IFRS at the date of transition.

As required by IFRS 1, estimates made under IFRS at the date of transition must be consistent with estimates made for the same date under Canadian GAAP (its previous GAAP), unless there is evidence that those estimates were in error.

In preparing its opening IFRS consolidated statement of financial position, the Company has adjusted amounts reported previously in the consolidated financial statements prepared in accordance with Canadian GAAP.

The following table provides a reconciliation of equity for comparative periods and of equity at the date of transition reported under Canadian GAAP to those reported under IFRS:

(Unaudited, in thousands of Canadian dollars)	March 1, 2010	May 31, 2010	February 28, 2011
Equity under Canadian GAAP	$7,996	$9,922	$14,204
Adjustments:			
Property, plant and equipment	(1,071)	(1,068)	(916)
Convertible debentures	(22)	(25)	-
Debenture conversion options	(489)	(291)	-
Derivative financial liabilities	(234)	(239)	-
Equity under IFRS	$6,180	$8,299	$13,288

The following table provides a reconciliation of the Company's total comprehensive income (loss) for the comparative period under Canadian GAAP to those reported for the three-month period ended May 31, 2011 and the year ended February 28, 2011 under IFRS:

(Unaudited, in thousands of Canadian dollars)	Three-month month period May 31, 2010	Year ended February 28, 2011
Comprehensive income (loss) under Canadian GAAP	$476	$516
Adjustments:		
Property, plant and equipment	15	155
Share-based payments	38	(19)
Finance costs	237	592
Gain on dilution	(272)	(2,765)
	$494	$(1,521)

Property, plant and equipment - component accounting

Under Canadian GAAP, the Company did not apply component accounting to the significant separable component parts of an item of property, plant and equipment since no guidance was provided on evaluating the cost of a component, replacement of a component and the level at which component accounting is required. In accordance with IFRSs, the Company applied component accounting to its buildings.

Share based payment – equity instruments

As permitted by IFRS 1, the Company elected to apply the exemptions for share-based payments for equity instruments granted after November 7, 2002 that vested before the transition to IFRSs.

In some cases, stock-based awards vest in installments over a specified vesting period. Under IFRS, when the only vesting condition is service from the grant date to the vesting date of each tranche awarded, each installment of the award is accounted for as a separate share-based payment arrangement, otherwise known as graded vesting. In addition, under IFRS, forfeitures are estimated at the time of the grant, which is revised if subsequent information indicates that actual forfeitures are likely to differ from the estimate. Under previous Canadian GAAP, the Company accounted for stock-based awards that vested in installments as a single award with a vesting period based on the total life of the award. In addition, forfeitures were not considered at the time of grant but accounted for as they occurred, as permitted under Canadian GAAP.

Under previous Canadian GAAP, no expense was recognized for share-based awards pending shareholders' approval, unless approval was assured. Under IFRS, share-based awards are recognized when the services are received and may result in the recognition of an expense prior to the grant date. The entity estimates the grant-date fair value of the equity instruments for the purpose of recognizing the services from the service commencement date until grant date by assuming that the end of the reporting period is the grant date. Until the grant date has been established, the entity revises the earlier estimates so that the amounts recognized for services received are based on the grant-date fair value of the equity instruments. This revision is treated as a change in estimate and the impact on the share-based payment expense is adjusted in each period accordingly.

Debenture Call-Options

Under previous Canadian GAAP, the Debenture Call-Options over Acasti shares issued by Neptune were determined to be an equity instrument. Under IFRS, the Company concluded that the Debenture Call-Options are classified as liabilities until November 15, 2009, as their conversion ratio remained subject to adjustment if a new financing had been concluded at a price per Class A share below $0.25 until that date. After the expiry of this feature, the instrument was determined to meet the criteria for equity classification.

As derivative liabilities are to be recorded at their fair values through profit and loss, the Company determined that the instruments outstanding as at November 15, 2009 had a fair value of $244. In reconciling to IFRS, the increase in fair value from the grant-date nil carrying amount was recognized as a pre-transition loss, which became the carrying amount of the non-controlling interest equity instrument subsequent to November 15, 2009 and therefore at the date of transition.

Warrants

The Company issued warrants that are still outstanding at the date of transition. Under previous Canadian GAAP, these warrants were equity-classified, recorded at their initial fair value in shareholder's equity and were not re-measured subsequently. Under IFRS, the Company determined that all warrants issued by the Company met the criteria for equity classification with the exception of the Acasti Series II warrants. These warrants are not equity-classified under IFRS as the settlement alternatives for these warrants also provide for a cash-settlement option for the issuer. As a result, the warrants are classified as a liability and accounted as freestanding derivative financial instruments with changes in fair value recognized in income at each reporting date.

The Company valued the Acasti Series II warrants at the date of transition, at each subsequent interim reporting date, and immediately before settlement, using the models and assumptions described in note 10. The estimated fair value is recorded in the consolidated balance sheets in "Derivative financial liabilities". Because the warrants had a nil carrying amount in equity, the only reclassification from equity upon transition was to charge the estimated fair value of $ 234 to retained earnings at that date.

Subsequent changes in the estimated fair value of the Acasti Series II warrants through to expiry were recorded as adjustments to finance costs in the statement of comprehensive income. Consequently, a fair value increase of $5 was recognized as an adjustment for the three month period ended May 31, 2010, and a fair value decrease of $108 was recognized as an adjustment for the year ended February 28, 2011.

Convertible debentures

In 2008, the Company issued convertible debentures that were partially outstanding at the date of transition.

Under previous Canadian GAAP, the convertible debentures were treated as a compound instrument containing a debt and an equity component. On initial recognition of the debentures, the proceeds received were allocated to their component parts based on the proportionate fair value method. The amount recorded in equity for the above notes was not re-measured subsequent to their initial recognition under previous Canadian GAAP.

Under IFRS, convertible debentures are treated as hybrid financial instruments comprising debt and embedded derivative. The equity conversion option, previously recognized as the equity component under Canadian GAAP, was determined to be a liability-classified embedded derivative. Under IFRS, a derivative over an entity's own equity can be classified as equity when it is to be settled through the exchange of a fixed number of shares for a fixed consideration. The option to settle into Neptune units did not meet this requirement, as the Conversion Warrants would be settled by using an amount of cash that varies until conversion occurs. Consistent with practice under IFRS, the fair value of the embedded derivative would have been recorded in full at the issue date. The detachable financial instruments would have also been recorded at full value as a cost of financing. Those components have previously been measured at their proportionate issue date fair value under Canadian GAAP. As a result, the issue date carrying amount of the debt host was reduced and a new effective interest rate was determined to accrete the amount to the principal value through maturity. At the date of transition, the IFRS amortized cost of the debenture was determined to be $22 higher that under previous GAAP and the carrying amount of Debenture Warrants to be $58 higher. Those differences were charged to retained earnings at that date.

The Company valued the embedded equity conversion derivative at the date of transition, at each subsequent interim reporting date, and immediately before settlement, using the models and assumptions described in note 10. The estimated fair value is recorded in the consolidated balance sheets in "Derivative financial liabilities".

At the date of transition, the carrying amount of the Canadian GAAP equity component of $80 was reclassified to this account, along with an increment of $409 from retained earnings to reflect fair value at that date.

Subsequent changes in the estimated fair value of the embedded derivative through to expiry were recorded as adjustments to finance costs in the statement of comprehensive income, along with the increase in accretion expense. Consequently, a net charge of $174 was recognized as an adjustment for the three month period ended May 31, 2010, and a net charge of $280 was recognized as an adjustment for the year ended February 28, 2011.

Non-controlling interest

At the date of transition, Neptune applied IAS 27 – *Consolidated and Separate Financial Statements*, as amended in 2008. The accounting guidance under IFRS impacted the Company's accounting for non-controlling interest in three different ways compared to previous Canadian GAAP.

First, in determining consolidated comprehensive income, deduction is made for the portion attributable to the non-controlling interest, and the non-controlling interest is presented as a separate component of consolidated equity. Second, the non-controlling interest continues to be attributed its share of losses of a subsidiary even if that attribution results in a deficit non-controlling interest balance. Third, transactions with non-controlling interest that do not result in a change in control of the subsidiary are treated as equity transactions, with no gain or loss on dilution being recognized.

As previously noted, the Company uses an exemption from retrospective application, and therefore, the requirements were applied prospectively from March 1, 2010. As a result, the carrying amount of nil non-controlling interest under Canadian GAAP was determined to be the IFRS carrying amount at that date.

The recognition of the gain on dilution under Canadian GAAP, in the amount of $2,765 for the year ended February 28, 2011 and $272 for the three month period ended May 31, 2010 were reversed, as they are now accounted for as an equity transaction. This entry has no impact on the shareholders' equity reconciliation as it is already included therein.

In accordance with new guidance, the Company allocated losses of its majority-owned subsidiary Acasti to controlling and non-controlling interests based on their proportionate shareholdings in Acasti's Class A shares throughout the year. Also, it calculated the changes in carrying amounts of non-controlling interest for each transaction that occurred during the year.

The following details the changes in non-controlling interest in accordance with IFRS:

	Three-month month period May 31, 2010	Year ended February 28, 2011
Non-controlling interest, beginning of period	$ -	$ -
Exercise of Debenture Call-Options	72	72
Exercise of Conversion Call-Options	-	125
Exercise of subsidiary warrants by Neptune	-	1,281
Exercise of subsidiary warrants by third parties	-	704
Net loss and comprehensive loss attributable to the non-controlling interest	(240)	(1,110)
	$ (168)	$ 1,072

Future accounting changes

Refer to note 3 of the consolidated interim financial statements.

Critical Accounting Policies and Estimates

The condensed consolidated interim financial statements are prepared in accordance with IFRS. In preparing the condensed consolidated interim financial statements for the three-month periods ended May 31, 2011 and 2010, management made estimates in determining transaction amounts and statement of financial position balances. Certain policies have more importance than others. We consider them critical if their application entails a substantial degree of judgement or if they result from a choice between numerous accounting alternatives and the choice has a strong material impact on reported results of operation or financial position. The following are the Company's most significant accounting policies and the items for which critical estimates were made in the consolidated financial statements should be read in conjunction with the notes to the condensed consolidated interim financial statements for the three-month periods ended May 31, 2011 and 2010.

Use of Estimates and Judgment

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates are based on the management's best knowledge of current events and actions that the Company may undertake in the future. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

In preparing these condensed consolidated interim financial statements, the nature of significant judgments made by management applying the Company's accounting policies and the key sources of estimating uncertainties are expected to be the same as those applied in the first annual consolidated financial statement under IFRS.

Critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements include the following:

- Determining the functional currency;
- Assessing derivatives over the Company's equity for liability or equity classification; and
- Assessing the recognition of contingent liabilities.

Assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year include the following:

- Recoverability of intangible assets that have indefinite useful lives or that are not yet available for use;
- Utilization of tax losses;
- Measurement of derivative financial liabilities and stock-based compensation; and
- Collectability of trade receivable.

Also, the Company uses its best estimate to determine which R&D expenses qualify for R&D tax credits and in what amounts. The Company recognizes the tax credits once it has reasonable assurance that they will be realized. Recorded tax credits are subject to review and approval by tax authorities and therefore, could be different from the amounts recorded.

Disclosure Controls, Procedures and Internal Control over Financial Reporting

Management of Neptune, including the Chief Executive Officer and Chief Financial Officer, have designed disclosure controls and procedures ("DC&P") to provide reasonable assurance that material information relating to the Company, including its consolidated subsidiaries, is made known to them by others within those entities, particularly during the period in which the annual filings are being prepared, and information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation. Also, management of Neptune, have designed internal control over financial reporting ("ICFR") to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the Company's IFRS.

Changes in Internal Control over Financial Reporting

During the three-month period ended May 31, 2011, the President and the CFO evaluated whether there were any material changes in internal control over financial reporting pursuant to MI 52-109. They individually concluded that there was no change during the three-month period ended May 31, 2011 that affected materially or is reasonably likely to affect materially the Company's internal controls over financial reporting and disclosure controls and procedures.

RISK FACTORS

The information contained in the Financial Statements and the MD&A for the three month period ended May 31, 2011 should be read in conjunction with all the Company's public documentation and in particular the risk factors section in the Annual Information Form. This information does not represent an exhaustive list of all risks related to an investment decision in the Company.

Credit risk:

Credit risk is the risk of a loss if a customer or counterparty to a financial asset fails to meet its contractual obligations, and arises primarily from the Company's trade receivables. The Company may also have credit risk relating to cash, which it manages by dealing only with highly-rated Canadian institutions. The carrying amount of financial assets, as disclosed in the consolidated balance sheet, represents the Company's credit exposure at the reporting date, including trade receivables. The Company's trade receivables and credit exposure fluctuate throughout the year. The Company's average trade receivables and credit exposure during the year may be higher than the balance at the end of that reporting period.

The Company's extension of credit to customers involves considerable judgment and is based on an evaluation of each customer's financial condition and payment history. The Company has established various internal controls designed to mitigate credit risk, including a credit analysis by the insurer which recommends customers' credit limits and payment terms that are reviewed and approved by the Company. The Company reviews periodically the insurer's maximum credit quotation for each of its clients. New clients are subject to the same process as regular clients. The Company has also established procedures to obtain approval by senior management to release goods for shipments when customers have fully-utilized approved insurers credit limits. From time to time, the Company will temporarily transact with customers on a prepayment basis where circumstances warrant. While the Company's credit controls and processes have been effective in mitigating credit risk, these controls cannot eliminate credit risk and there can be no assurance that these controls will continue to be effective, or that the Company's low credit loss experience will continue. Customers do not provide collateral in exchange for credit, except in unusual circumstances. Receivables from selected customers are covered by credit insurance, with amounts usually up to 100% of the invoicing, with the exception of some customers under specific terms. The information available through the insurers is the main element in the decision process to determine the credit limits assigned to customers. The Company provides for trade receivable accounts to their expected realizable value as soon as the account is determined not to be fully collectable, with such write-offs charged to consolidated earnings unless the loss has been provided for in prior periods, in which case the write-off is applied to reduce the allowance for doubtful accounts. The Company updates its estimate of the allowance for doubtful accounts, based on individual customer evaluations of the collectibility of trade receivable balances at each balance sheet reporting date, taking into account amounts which are past due, and any available information indicating that a customer could be experiencing liquidity or going concern problems.

Foreign exchange risk:

The Company is exposed to the financial risk related to the fluctuation of foreign exchange rates and the degrees of volatility of those rates. Foreign currency risk is limited to the portion of the Company's business transactions denominated in currencies other than the Canadian dollar. From time to time, the Company uses derivative financial instruments to reduce its foreign exchange exposure. Fluctuations related to foreign exchange rates could cause unforeseen fluctuations in the Company's operating results. A small portion of the purchases, except for the purchase of raw materials, are made in foreign currencies. There is a financial risk involved related to the fluctuation in the value of the US dollar in relation to the Canadian dollar. The Company enters into currency forwards and options to purchase or sell amounts of foreign currency in the future at predetermined exchange rates. The purpose of these currency forwards is to fix the risk of fluctuations in future exchange rates.

Interest rate risk:

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market rates. The risk that the Company will realize a loss as a result of the decline in the fair value of its short-term investments is limited because these investments have short-term maturities and are generally held to maturity. The capacity of the Company to reinvest the short-term amounts with equivalent returns will be impacted by variations in short-term fixed interest rates available in the market.

Liquidity risk:

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages liquidity risk through the management of its capital structure and financial leverage. It also manages liquidity risk by continuously monitoring actual and projected cash flows. The Audit Committee and the Board of Directors review and approve the Company's operating budgets, and review the most important material transactions outside the normal course of business.

Financial risks:
Until each entity is independently financed, the success of the Company is dependent on its ability to support the development of its two subsidiaries and its ability to bring their products to market, obtain the necessary approvals, and achieve future profitable operations. This is dependent on the Company's ability to obtain adequate financing through a combination of financing activities and operations. It is not possible to predict either the outcome of future research and development programs nor the Company's ability, nor its subsidiaries ability, to fund these programs going forward.

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

Product Liability:
The Company has secured a $5,000 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.

Additional Information
Updated and additional Company information is available from the SEDAR Website at www.sedar.com and from EDGAR Website at www.sec.gov

As at August 12, 2011, the total number of common shares issued by the Company and in circulation was 49,144,837 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. There were also 1,756,184 warrants and 3,089,000 options outstanding as at the same date.

/s/ Henri Harland

Henri Harland
President and Chief Executive Officer

/s/ André Godin

André Godin
Chief Financial Officer

Consolidated Interim Financial Statements of
(Unaudited)

NEPTUNE TECHNOLOGIES & BIORESSOURCES INC.

For the three-month periods ended May 31, 2011 and 2010 and as at March 1, 2010

NEPTUNE TECHNOLOGIES & BIORESSOURCES INC.

Consolidated Interim Financial Statements
(Unaudited)

For the three-month periods ended May 31, 2011 and 2010 and as at March 1, 2010

Financial Statements

Notice:

These interim financial statements have not been reviewed by an auditor.

NEPTUNE TECHNOLOGIES & BIORESSOURCES INC.

Consolidated Interim Statements of Financial Position
(Unaudited)

As of May 31, 2011, February 28, 2011 and March 1, 2010

	May 31, 2011	February 28, 2011	March 1, 2010
Assets			
Current assets:			
Cash	$ 3,502,320	$ –	$ 1,093,194
Short-term investments	9,930,903	3,512,858	1,001,011
Trade and other receivables	5,924,891	5,627,191	3,290,654
Tax credits receivable	244,149	644,753	664,131
Prepaid expenses	256,293	968,530	99,859
Inventories	6,682,633	4,544,917	2,645,752
	26,541,189	15,298,249	8,794,601
Government grant receivable	100,000	150,000	150,000
Property, plant and equipment	6,009,016	6,107,528	6,327,407
Intangible assets	1,263,867	1,268,867	1,223,309
	$ 33,914,072	$ 22,824,644	$ 16,495,317
Liabilities and Equity			
Current liabilities:			
Bank overdraft	$ –	$ 39,533	$ –
Loans and borrowings (note 8)	983,152	1,615,491	1,002,337
Trade and other payables	3,895,170	3,258,063	2,416,413
Advance payments	844,058	823,639	878,814
	5,722,380	5,736,726	4,297,564
Loans and borrowings (note 8)	3,554,091	3,799,831	4,805,024
Convertible debentures (note 9)	–	–	489,842
Debenture conversion options	–	–	489,462
Private placement warrants (note 4 (b))	949,638	–	–
Derivative financial liabilities (note 4 (c))	–	–	233,790
	10,226,109	9,536,557	10,315,682
Equity:			
Share capital	41,712,334	31,271,660	25,237,147
Warrants	848,182	104,987	350,608
Contributed surplus	9,909,924	9,510,143	9,035,331
Deficit	(31,615,969)	(28,779,977)	(28,850,227)
Total equity attributable to equity holders of the Company	20,854,471	12,106,813	5,772,859
Non-controlling interest	2,648,963	1,071,840	–
Subsidiary options	184,529	109,434	406,776
Total equity attributable to non-controlling interest	2,833,492	1,181,274	406,776
Total equity	23,687,963	13,288,087	6,179,635
	$ 33,914,072	$ 22,824,644	$ 16,495,317

See accompanying notes to unaudited consolidated interim financial statements.

NEPTUNE TECHNOLOGIES & BIORESSOURCES INC.

Consolidated Interim Statements of Earnings and Comprehensive Income
(Unaudited)

Three-month periods ended May 31, 2011 and 2010

	May 31, 2011	May 31, 2010
Revenue from sales	$ 4,283,234	$ 4,144,673
Cost of sales	(2,058,473)	(1,697,318)
Gross profit	2,224,761	2,447,355
Other income - revenue from research contracts	9,464	16,839
Selling expenses	(648,318)	(258,357)
General and administrative expenses	(1,812,073)	(1,290,594)
Research and development expenses, net of tax credits of $108,704 (2010 - $126,927)	(736,181)	(520,098)
	(962,347)	395,145
Interest income	15,059	6,703
Finance costs	(439,409)	133,811
Foreign exchange gain (loss)	127,828	(41,554)
Net finance (expense) income	(296,522)	98,960
Net (loss) profit and total comprehensive income (loss) for the period	$ (1,258,869)	$ 494,105
Net (loss) profit and comprehensive income (loss) attributable to:		
Owners of the Company	$ (838,505)	$ 734,366
Non-controlling interest	(420,364)	(240,261)
Net (loss) profit and comprehensive income (loss) for the period	$ (1,258,869)	$ 494,105
Basic earnings (loss) per share	$ (0.028)	$ 0.013
Diluted earnings (loss) per share	(0.028)	0.012

See accompanying notes to unaudited interim consolidated financial statements.

NEPTUNE TECHNOLOGIES & BIORESSOURCES INC.

Consolidated Interim Statements of Changes in Equity
(Unaudited)

Three-month periods ended May 31, 2011 and 2010

	Attributable to equity holders of the Company						Attributable to non-controlling interest			
	Share capital									
	Number	Dollars	Warrants	Contributed surplus	Deficit	Total	Subsidiary options	Non controlling interest	Total	Total equity
Balance, February 28, 2011	42,490,873	$ 31,271,660	$ 104,987	$ 9,510,143	$ (28,779,977)	$ 12,106,813	$ 109,434	$ 1,071,840	$ 1,181,274	$ 13,288,087
Net loss and total comprehensive loss for the period	–	–	–	–	(838,505)	(838,505)	–	(420,364)	(420,364)	(1,258,869)
	42,490,873	31,271,660	104,987	9,510,143	(29,618,482)	11,268,308	109,434	651,476	760,910	12,029,218
Transactions with owners, recorded directly in equity										
Contributions by and distribution to owners										
Issuance of shares and warrants through private placement	5,785,057	10,154,329	743,195	–	–	10,897,524	–	–	–	10,897,524
Share-based payment transactions	–	–	–	513,126	–	513,126	75,095	–	75,095	588,221
Share options exercised	67,500	286,345	–	(113,345)	–	173,000	–	–	–	173,000
Total contributions by and distribution to owners	5,852,557	10,440,674	743,195	399,781	–	11,583,650	75,095	–	75,095	11,658,745
Change in ownership interests in subsidiaries that do not result in a loss of control										
Conversion of subsidiary convertible redeemable shares	–	–	–	–	(1,997,487)	(1,997,487)	–	1,997,487	1,997,487	–
Total changes in ownership interest in subsidiaries	–	–	–	–	(1,997,487)	(1,997,487)	–	1,997,487	1,997,487	–
Total transactions with owners	5,852,557	10,440,674	743,195	399,781	(1,997,487)	9,586,163	75,095	1,997,487	2,072,582	11,658,745
Balance at May 31, 2011	48,343,430	$ 41,712,334	$ 848,182	$ 9,909,924	$ (31,615,969)	$ 20,854,471	$ 184,529	$ 2,648,963	$ 2,833,492	$ 23,687,963

See accompanying notes to unaudited consolidated interim financial statements

NEPTUNE TECHNOLOGIES & BIORESSOURCES INC.

Consolidated Interim Statements of Changes in Equity, Continued
(Unaudited)

Three-month periods ended May 31, 2011 and 2010

	Attributable to equity holders of the Company						Attributable to non-controlling interest			
	Share capital									
	Number	Dollars	Warrants	Contributed surplus	Deficit	Total	Subsidiary options	Non controlling interest	Total	Total equity
Balance, March 1, 2010	38,234,745	$ 25,237,147	$ 350,608	$ 9,035,331	$ (28,850,227)	$ 5,772,859	$ 406,776	$ –	$ 406,776	$ 6,179,635
Net profit (loss) and total comprehensive income (loss) for the period	–	–	–	–	734,366	734,366	–	(240,261)	(240,261)	494,105
	38,234,745	25,237,147	350,608	9,035,331	(28,115,861)	6,507,225	406,776	(240,261)	166,515	6,673,740
Transactions with owners, recorded directly in equity										
Contributions by and distribution to owners										
Share-based payment transactions	–	–	–	77,212	–	77,212	–	–	–	77,212
Warrants exercised	1,068,000	1,607,024	(330,580)	–	–	1,276,444	–	–	–	1,276,444
Expiry of warrants	–	–	(619)	510	163	54	–	–	–	54
Total contributions by and distribution to owners	1,068,000	1,607,024	(331,199)	77,722	163	1,353,710	–	–	–	1,353,710
Change in ownership interests in subsidiaries that do not result in a loss of control										
Acquisition of interest in subsidiary - exercise of Debenture Call options	–	–	–	440,770	–	440,770	(241,588)	72,418	(169,170)	271,600
Total changes in ownership interest in subsidiaries	–	–	–	440,770	–	440,770	(241,588)	72,418	(169,170)	271,600
Total transactions with owners	1,068,000	1,607,024	(331,199)	518,492	163	1,794,480	(241,588)	72,418	(169,170)	1,625,310
Balance at May 31, 2010	39,302,745	$ 26,844,171	$ 19,409	$ 9,553,823	$ (28,115,698)	$ 8,301,705	$ 165,188	$ (167,843)	$ (2,655)	$ 8,299,050

See accompanying notes to unaudited consolidated interim financial statements.

NEPTUNE TECHNOLOGIES & BIORESSOURCES INC.

Consolidated Interim Statements of Cash Flows
(Unaudited)

Three-month periods ended May 31, 2011 and 2010

	May 31, 2011	May 31, 2010
Cash flows from operating activities:		
Net (loss) profit for the period	$ (1,258,869)	$ 494,105
Adjustments:		
Depreciation of property, plant and equipment	183,251	177,965
Amortization of intangible assets	8,112	8,007
Stock-based compensation	588,221	77,212
Net finance expense	296,522	(98,966)
Foreign exchange	127,828	(41,554)
	(54,935)	616,769
Changes in non-cash operating working capital items:		
Trade and other receivables	(297,700)	181,053
Inventories	(2,137,716)	(1,169,194)
Tax credits receivable	400,604	300,288
Prepaid expenses	712,247	(276,813)
Trade and other payables	637,133	426,650
Advance payments	20,419	(79,471)
	(665,013)	(617,487)
	(719,948)	(718)
Cash flows from investing activities:		
Interest received	15,059	6,703
Acquisition of property, plant and equipment	(84,739)	(198,001)
Acquisition of intangible assets	(3,712)	(6,998)
Maturity of short-term investments	491,320	–
Acquisition of short-term investments	(6,909,365)	–
	(6,491,437)	(198,296)
Cash flows from financing activities:		
Repayment of loans and borrowings	(878,079)	(289,137)
Proceeds from exercise of subsidiary warrants	–	698
Proceeds from exercise of warrants	–	1,335,000
Proceeds from exercise of debenture call options	–	271,600
Net proceeds from private placement	11,517,318	–
Proceeds from exercise of stock options	173,000	–
Interest paid	(59,001)	(58,691)
	10,753,238	1,259,470
Net increase in cash	3,541,853	1,060,456
(Bank indebtedness) cash, beginning of period	(39,533)	1,093,194
Cash, end of period	$ 3,502,320	$ 2,153,650

See accompanying notes to unaudited interim consolidated financial statements.

1. Reporting entity

Neptune Technologies & Bioressources Inc. (the "Company") is incorporated under Part 1A of the *Companies Act* (Québec).The Company is domiciled in Canada and its registered office is located at 225 Promenade du Centropolis, Laval, Québec H7T 0B3. The condensed consolidated interim financial statements of the Company comprise the Company and its subsidiaries. The Company focuses on the research, development and commercialization of products derived from marine biomasses for the nutraceutical, pharmaceutical and cosmetic industries. The Company develops proprietary and potent health ingredients from underexploited marine biomasses, such as krill, with its patented extraction process Neptune OceanExtract™. The Company develops and industrializes its extraction process and markets its marine oil Neptune Krill Oil - NKO® and ECO Krill Oil - EKO™, as well as its protein concentrated Neptune Krill Aquatein - NKA™. Its products are aimed at the nutraceutical, biopharmaceutical, cosmetics and pet food markets.

2. Basis of preparation

(a) Statement of compliance:

These condensed consolidated interim financial statements have been prepared in accordance with IAS 34 *Interim Financial Reporting*. These are the Company's first IFRS condensed consolidated interim financial statements for part of the period covered by the first IFRS annual financial statements and IFRS 1 *First-time Adoption of International Financial Reporting Standards* has been applied. The first date at which IFRS was applied was March 1, 2010. Certain information, in particular the accompanying notes, normally included in the consolidated annual financial statements prepared in accordance with IFRS have been omitted or condensed. Accordingly the condensed consolidated interim financial statements do not include all of the information required for full annual financial statements.

An explanation of how the transition to IFRS has affected the previously reported financial position, financial performance and cash flows of the Company is provided in note 15. This note includes reconciliations of equity and total comprehensive income for comparative periods and of equity at the date of transition reported under previous Canadian GAAP to those reported for those periods and at the date of transition under IFRS.

2. Basis of preparation (continued):

(b) Basis of measurement:

The consolidated financial statements have been prepared on the historical cost basis except for the following:

- Liabilities for warrants which are measured at fair value; and
- Separable embedded derivatives and other non-trading derivatives which are measured at fair value.

(c) Functional and presentation currency:

These consolidated financial statements are presented in Canadian dollars, which is the Company's functional currency.

(d) Use of estimates and judgements:

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates are based on the management's best knowledge of current events and actions that the Company may undertake in the future. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

In preparing these condensed consolidated interim financial statements, the nature of significant judgements made by management applying the Company's accounting policies and the key sources of estimating uncertainties are expected to be the same as those applied in the first annual consolidated financial statement under IFRS.

Critical judgements in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements include the following:

- Assessing derivatives over the Company's equity for liability or equity classification;and
- Assessing the recognition of contingent liabilities.

2. Basis of preparation (continued):

(d) Use of estimates and judgements (continued):

Assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year include the following:

- Recoverability of intangible assets that have indefinite useful lives or that are not yet available for use;
- Utilization of tax losses;
- Measurement of derivative financial liabilities and stock-based compensation; and
- Collectability of trade receivable.

Also, the Company uses its best estimate to determine which R&D expenses qualify for R&D tax credits and in what amounts. The Company recognizes the tax credits once it has reasonable assurance that they will be realized. Recorded tax credits are subject to review and approval by tax authorities and therefore, could be different from the amounts recorded.

3. Significant accounting policies:

The accounting policies set out below have been applied consistently to all periods presented in these consolidated interim financial statements, including the opening IFRS statement of financial position at March 1, 2010 for the purposes of the transition to IFRSs, and have been applied consistently by the Company's subsidiaries.

(a) Basis of consolidation:

(i) Subsidiaries:

Subsidiaries are entities controlled by the Company. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Control exists when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from those activities. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Company.

3. Significant accounting policies (continued):

(a) Basis of consolidation (continued):

(ii) Transactions eliminated on consolidation:

Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

(iii) Acquisitions and dispositions of non-controlling interests:

Acquisitions and dispositions of non-controlling interests are accounted for as transactions with equity holders in their capacity as equity holders; therefore no goodwill is recognized as a result of acquisitions and no gain or loss is recognised in connection with dispositions.

Comprehensive income is attributed to the Company's owners and to non-controlling interests in accordance with their respective shareholdings of participating equity instruments.

(b) Financial instruments:

(i) Non-derivative financial assets:

The Company initially recognizes loans and receivables on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognized initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Company is recognized as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position (balance sheet) when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

The Company has the following non-derivative financial assets: cash, short term investments and receivables.

3. Significant accounting policies (continued):

(b) Financial instruments (continued):

(i) Non-derivative financial assets (continued):

Cash

Cash and cash equivalents comprise cash balances and highly liquid investments purchased three months or less from maturity. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

Loans and receivables comprise trade and other receivables, and short-term investments with maturities of less than one year.

(ii) Non-derivative financial liabilities:

The Company initially recognizes debt securities issued and subordinated liabilities on the date that they are originated. All other financial liabilities (including liabilities designated at fair value through profit or loss) are recognized initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position (balance sheet) when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

The Company has the following non-derivative financial liabilities: loans and borrowings, and trade and other payables.

Such financial liabilities are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortized cost using the effective interest method.

3. Significant accounting policies (continued):

(b) Financial instruments (continued):

(iii) Share capital:

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares and share options are recognized as a deduction from equity, net of any tax effects.

(iv) Derivative financial instruments:

The Company has issued liability-classified derivatives and embedded derivatives over its own equity. Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the combined instrument is not measured at fair value through profit or loss.

From time to time, the Company also holds derivative financial instruments to reduce its foreign currency risk exposure. The Company does not hold or use derivative financial instruments for speculation purposes.

Derivatives are recognized initially at fair value; attributable transaction costs are recognized in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are accounted for as described below.

Separable embedded derivatives

Changes in the fair value of separable embedded derivatives are recognized immediately in profit or loss.

Other non-trading derivatives

When a derivative financial instrument is not held for trading, and is not designated in a qualifying hedge relationship, all changes in its fair value are recognized immediately in profit or loss.

3. Significant accounting policies (continued):

(c) Inventories:

Inventories are measured at the lower of cost and net realizable value. The cost of raw materials and spare parts is based on the weighted-average cost method. The cost of finished goods and work in process is determined per project and includes expenditures incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition, as well as production overheads based on normal operating capacity.

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(d) Property, plant and equipment:

(i) Recognition and measurement:

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located, and borrowing costs on qualifying assets for which the commencement date for capitalization is on or after March 1, 2010.

Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognized net within “other income or expenses” in profit or loss.

3. Significant accounting policies (continued):

(d) Property, plant and equipment (continued):

(ii) Subsequent costs:

The cost of replacing a part of an item of property, plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company, and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of property, plant and equipment are recognized in profit or loss as incurred.

(iii) Depreciation:

Depreciation is calculated over the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value.

Depreciation is recognized in profit or loss on either a straight-line basis or a declining basis over the estimated useful lives of each part of an item of property, plant and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Company will obtain ownership by the end of the lease term.

The estimated useful lives for the current and comparative periods are as follows:

Asset	Method	Period/Rate
Building	Straight-line	15 to 40 years
Laboratory and plant equipment	Straight-line	5 to 10 years
Furniture and office equipment	Diminishing balance	20% to 30%
Computer equipment and software	Straight-line	2 - 4 years

Depreciation methods, useful lives and residual values are reviewed at each financial year end and adjusted prospectively if appropriate.

3. Significant accounting policies (continued):

(e) Intangible assets:

(i) Research and development:

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognized in profit or loss as incurred.

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditure is capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Company intends to and has sufficient resources to complete development and to use or sell the asset. The expenditure capitalized includes the cost of materials, direct labour, overhead costs that are directly attributable to preparing the asset for its intended use, and borrowing costs on qualifying assets for which the commencement date for capitalization is on or after March 1, 2010. Other development expenditure is recognized in profit or loss as incurred.

Capitalized development expenditure is measured at cost less accumulated amortization and accumulated impairment losses.

(ii) Other intangible assets:

Patent costs

Patents for technologies that are no longer in the research phase are recorded at cost. The patent costs include legal fees to obtain patents and patent application fees. When the technology is still in the research phase, those costs are expensed as incurred.

Trademarks and licences

Trademarks and licenses have indefinite useful lives considering that they can be renewed at a minimal cost and are recognized using the cost model and are not amortized. They are tested for impairment annually, or more frequently if events or changes in circumstances indicate that they are impaired. Any impairment is recognized in profit or loss.

(iii) Subsequent expenditure:

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognized in profit or loss as incurred.

3. Significant accounting policies (continued):

(e) Intangible assets (continued):

(iv) Amortization:

Amortization is calculated over the cost of the asset, or other amount substituted for cost, less its residual value.

Amortization is recognized in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than trademarks and licences, from the date that they are available for use, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. The estimated useful lives for the current and comparative periods are as follows:

	Periods
Patents	20 years
Capitalized development costs	5 years

(f) Leased assets:

The economic ownership of a leased asset is transferred to the lessee if the lessee bears substantially all the risks and rewards related to the ownership of the leased asset. The related asset is then recognized at the inception of the lease at the fair value of the leased asset or, if lower, the present value of the lease payments plus incidental payments, if any. A corresponding amount is recognized as a finance leasing liability, irrespective of whether some of these lease payments are payable up-front at the date of the inception of the lease. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Leases where the lessor retains the risks and rewards of ownership are treated as operating leases. Payments on operating lease agreements are recognized as an expense on a straight-line basis over the lease term. Associated costs, such as maintenance and insurance are expensed as incurred.

3. Significant accounting policies (continued):

(g) Impairment:

(i) Financial assets (including receivables):

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Company on terms that the Company would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, or the disappearance of an active market for a security.

The Company considers evidence of impairment for receivables at both a specific asset and collective level. All individually significant receivables are assessed for specific impairment. All individually significant receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Receivables that are not individually significant are collectively assessed for impairment by grouping together receivables with similar risk characteristics.

In assessing collective impairment the Company uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in profit or loss and reflected in an allowance account against receivables. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

(ii) Non-financial assets:

The carrying amounts of the Company's non-financial assets, other than inventories are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each year at the same time.

3. Significant accounting policies (continued):

(g) Impairment (continued):

(ii) Non-financial assets (continued):

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit, or CGU").

The Company's corporate assets do not generate separate cash inflows. If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the CGU to which the corporate asset belongs.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss.

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(h) Provisions:

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as finance cost.

3. Significant accounting policies (continued):

(h) Provisions (continued):

(i) Onerous contracts:

A provision for onerous contracts is recognized when the expected benefits to be derived by the Company from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Company recognizes any impairment loss on the assets associated with that contract.

(ii) Contingent liability:

A contingent liability is a possible obligation that arises from past events and of which the existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not within the control of the Company; or a present obligation that arises from past events (and therefore exists), but is not recognized because it is not probable that a transfer or use of assets, provision of services or any other transfer of economic benefits will be required to settle the obligation, or the amount of the obligation cannot be estimated reliably.

(i) Revenue:

(i) Sale of goods:

Revenue from the sale of goods in the course of ordinary activities is measured at the fair value of the consideration received or receivable, net of returns. Revenue is recognized when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. If it is probable that discounts will be granted and the amount can be measured reliably, then the discount is recognized as a reduction of revenue as the sales are recognized.

3. Significant accounting policies (continued):

(i) Revenue (continued):

(ii) Research services:

Revenue from research contracts is recognized in profit or loss when services to be provided are rendered and all conditions under the terms of the underlying agreement are met.

(a) Upfront payments:

Upfront payments are deferred and recognized as revenue on a systematic basis over the period during which the related services are delivered and all obligations are performed.

(b) Milestone payments:

Milestone payments based on product development, for which the Company has no future involvement or obligations to perform related to that specified element of the arrangement, are recognized into income upon the achievement of the specified milestones, and collectibility is reasonably assured. Contract payments received in advance that are potentially refundable are recorded as "advance payments" on the consolidated statements of financial position.

(j) Government grants:

Government grants consisting of grants and investment tax credits, are recorded as a reduction of the related expense or cost of the asset acquired. Government grants are recognized when there is reasonable assurance that the Company has met the requirements of the approved grant program and there is reasonable assurance that the grant will be received.

Grants that compensate the Company for expenses incurred are recognized in profit or loss as other income on a systematic basis in the same periods in which the expenses are recognized. Grants that compensate the Company for the cost of an asset are recognized in profit or loss on a systematic basis over the useful life of the asset.

(k) Lease payments:

Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

3. Significant accounting policies (continued):

(k) Lease payments (continued):

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Contingent lease payments are accounted for in the period in which they are incurred.

(l) Foreign currency:

Transactions in foreign currencies are translated to the respective functional currency at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency translated at the exchange rate at the end of the reporting period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognized in profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

(m) Employee benefits:

(i) Short-term employee benefits:

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognized for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

3. Significant accounting policies (continued):

(m) Employee benefits (continued):

(ii) Share-based payment transactions:

The grant date fair value of share-based payment awards granted to employees is recognized as an employee expense, with a corresponding increase in contributed surplus and subsidiary options, as applicable, over the period that the employees unconditionally become entitled to the awards. The amount recognized as an expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognized as an expense is based on the number of awards that do meet the related service and non-market performance conditions at the vesting date.

Share-based payment arrangements in which the Company receives goods or services as consideration for its own equity instruments are accounted for as equity-settled share-based payment transactions, regardless of how the equity instruments are obtained by the Company.

(iii) Termination benefits:

Termination benefits are recognized as an expense when the Company is committed demonstrably, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognized as an expense if the Company has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably. If benefits are payable more than 12 months after the reporting period, then they are discounted to their present value.

(n) Finance income and finance costs:

Finance income comprises interest income on funds invested. Interest income is recognized as it accrues in profit or loss, using the effective interest method.

Finance costs comprise interest expense on borrowings, unwinding of the discount on provisions, changes in the fair value of financial liabilities at fair value through profit or loss, and impairment losses recognized on financial derivative assets. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognized in profit or loss using the effective interest method.

Foreign currency gains and losses are reported on a net basis.

3. Significant accounting policies (continued):

(n) Finance income and finance costs (continued):

The Company recognizes interest income as a component of investing activities and interest cost as a component of financing activities in the consolidated statements of cash flows.

(o) Income tax:

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

3. Significant accounting policies (continued):

(p) Earnings per share:

The Company presents basic and diluted earnings per share (EPS) data for its common shares. Basic EPS is calculated by dividing the profit or loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period, adjusted for own shares held. Diluted EPS is determined by adjusting the profit or loss attributable to common shareholders and the weighted average number of common shares outstanding, adjusted for own shares held, for the effects of all dilutive potential common shares, which comprise convertible debentures, warrants and share options granted to employees.

(q) Segment reporting:

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Company's other components. All operating segments' operating results are reviewed regularly by the Company's CEO to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Segment results that are reported to the CEO include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets (primarily the Company's headquarters), head office expenses, and income tax assets and liabilities.

Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment, and intangible assets.

3. Significant accounting policies (continued):

(r) New standards and interpretations not yet adopted:

A number of new standards, and amendments to standards and interpretations, are not yet effective for the period ended May 31, 2011, and have not been applied in preparing these consolidated interim financial statements.

(i) Financial instruments:

In November 2009 the IASB issued IFRS 9 Financial Instruments (IFRS 9 (2009)), and in October 2010 the IASB published amendments to IFRS 9 (IFRS 9 (2010)).

IFRS 9 (2009) replaces the guidance in IAS 39 Financial Instruments: *Recognition and Measurement*, on the classification and measurement of financial assets. The Standard eliminates the existing IAS 39 categories of held to maturity, available-for-sale and loans and receivable. Financial assets will be classified into one of two categories on initial recognition:

- financial assets measured at amortized cost; or
- financial assets measured at fair value.

Gains and losses on remeasurement of financial assets measured at fair value will be recognized in profit or loss, except that for an investment in an equity instrument which is not held-for-trading, IFRS 9 provides, on initial recognition, an irrevocable election to present all fair value changes from the investment in other comprehensive income (OCI). The election is available on an individual share-by-share basis. Amounts presented in OCI will not be reclassified to profit or loss at a later date.

IFRS 9 (2010) added guidance to IFRS 9 (2009) on the classification and measurement of financial liabilities, and this guidance is consistent with the guidance in IAS 39 except as described below.

Under IFRS 9 (2010), for financial liabilities measured at fair value under the fair value option, changes in fair value attributable to changes in credit risk will be recognized in OCI, with the remainder of the change recognized in profit or loss. However, if this requirement creates or enlarges an accounting mismatch in profit or loss, the entire change in fair value will be recognized in profit or loss. Amounts presented in OCI will not be reclassified to profit or loss at a later date.

3. Significant accounting policies (continued):

(r) New standards and interpretations not yet adopted (continued):

(i) Financial instruments (continued):

IFRS 9 (2010) supersedes IFRS 9 (2009) and is effective for annual periods beginning on or after January 1, 2013, with early adoption permitted. For annual periods beginning before January 1, 2013, either IFRS 9 (2009) or IFRS 9 (2010) may be applied. The extent of the impact of adoption of IFRS 9 (2010) has not yet been determined.

(ii) Consolidated financial statements:

In May 2011, the IASB issued IFRS 10 *Consolidated Financial Statements*, which is effective for annual periods beginning on or after January 1, 2013, with early adoption permitted. IFRS 10 provides a single model to be applied in the control analysis for all investees, including entities that currently are special-purpose entities. The consolidation procedures are carried forward substantially unmodified from IAS 27 (2008).

The Company intends to adopt IFRS 10 in its financial statements for the annual period beginning on March 1, 2013. The Company does not expect IFRS 10 to have a material impact on the financial statements.

(iii) Disclosure of interests in other entities:

In May 2011, the IASB issued IFRS 12 *Disclosure of Interests in Other Entities*, which is effective for annual periods beginning on or after January 1, 2013, with early adoption permitted.

IFRS 12 contains the disclosure requirements for entities that have interests in subsidiaries, joint arrangements (i.e. joint operations or joint ventures), associates and/or unconsolidated structured entities. Interests are widely defined as contractual and non-contractual involvement that exposes an entity to variability of returns from the performance of the other entity. The required disclosures aim to provide information in order to enable users to evaluate the nature of, and the risks associated with, an entity's interest in other entities, and the effects of those interests on the entity's financial position, financial performance and cash flows.

The Company intends to adopt IFRS 12 in its financial statements for the annual period beginning on March 1, 2013. The Company does not expect the amendments to have a material impact on the financial statements.

3. Significant accounting policies (continued):

(r) New standards and interpretations not yet adopted (continued):

(iv) Fair value:

In May 2011, the IASB published IFRS 13 *Fair Value Measurement*, which is effective prospectively for annual periods beginning on or after January 1, 2013. The disclosure requirements of IFRS 13 need not be applied in comparative information for periods before initial application.

IFRS 13 replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. It defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, i.e. an exit price. The standard also establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements to provide information that enables financial statement users to assess the methods and inputs used to develop fair value measurements and, for recurring fair value measurements that use significant unobservable inputs (Level 3), the effect of the measurements on profit or loss or other comprehensive income.

IFRS 13 explains 'how' to measure fair value when it is required or permitted by other IFRSs. IFRS 13 does not introduce new requirements to measure assets or liabilities at fair value, nor does it eliminate the practicability exceptions to fair value measurements that currently exist in certain standards.

The Company intends to adopt IFRS 13 prospectively in its financial statements for the annual period beginning on March 1, 2013. The extent of the impact of adoption of IFRS 13 has not yet been determined.

4. Capital and other components of equity:

(a) Share capital and warrants:

Authorized capital stock:

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 (none issued and outstanding).

On May 3 and May 13, 2011, the Company closed the two portions of a private placement financing, from U.S. and Canadian accredited investors, for gross proceeds of $12,441,492.

A portion of the proceeds came from US institutional investors for 2,722,222 common shares at $US2.25 per share and warrants to purchase 680,556 additional common shares. The warrants to purchase additional shares will be exercisable at a price of US$2.75 per share for 18 months commencing one day following their issue date. The other portion of the proceeds came from Canadian institutional investors for 3,062,835 common shares at $2.15 per share and warrants to purchase 765,709 additional shares. The warrants to purchase additional shares will be exercisable at a price of $2.65 per share for 18 months commencing one day following their issue date.

4. Capital and other components of equity (continued):

(b) Warrants

The warrants of the Company are composed of the following as at May 31, 2011, February 28, 2011 and March 1, 2010:

	May 31, 2011		February 28, 2011		March 1, 2010	
	Number outstanding	Amount	Number outstanding	Amount	Number outstanding	Amount
Debenture warrants	–	$ –	–	$ –	1,070,000	$ 331,199
Conversion warrants	255,392	86,601	255,392	86,601	36,598	19,409
• 2010 Private placement	54,527	18,386	54,527	18,386	–	–
• 2011 Private placement - CA	765,709	743,195	–	–	–	–
• 2011 Private placement - US	680,556	949,638	–	–	–	–
	1,756,184	$ 1,797,820	309,919	$ 104,987	1,106,598	$ 350,608

	May 31, 2011	February 28, 2011	March 1, 2010
Classified as:			
Equity	$ 848,182	$ 104,987	$ 350,608
Liability	949,638	–	–
	$ 1,797,820	$ 104,987	$ 350,608

The significant terms of the warrants are as follows:

		Exercise price	Expiry
Debenture warrants	$	–	–
Conversion warrants		2 - 2.25	Multiple
Private placement warrants - CA		2.65	November 3, 2011
Private placement warrants - US	USD	2.75	November 3, 2011

4. Capital and other components of equity (continued):

(c) Subsidiary options:

Subsidiary options held by the Company are eliminated upon consolidation. Subsidiary options not held by the Company and Call Options on the Company's own subsidiary shares are detailed as follows as at May 31, 2011, February 28, 2011, and March 1, 2010:

	May 31, 2011		February 28, 2011		March 1, 2010	
	Number outstanding	Amount	Number outstanding	Amount	Number outstanding	Amount
Acasti Pharma Inc.						
Series 2 warrants	–	$ –	–	$ –	9,027,142	$ 233,790
Series 4 warrants	6,000,000	113,004	5,852,500	83,932	4,755,000	–
Series 5 warrants	–	–	–	–	30,000	–
Options outstanding under stock-based compensation plan	825,000	–	800,000	–	850,000	–
Debenture call options	–	–	–	–	1,100,000	244,612
Conversion call options	–	–	–	–	9,455,867	162,164
	6,825,000	113,004	6,652,500	83,932	25,218,009	640,566
NeuroBiopharm Inc.						
Series 4 warrants	–	–	5,820,000	25,202	4,660,000	–
Series 5 warrants	–	–	30,000	–	30,000	–
Series 2011-1	6,000,000	–	–	–	–	–
Series 2011-2	3,450,075	–	–	–	–	–
Series 2011-3	8,050,175	71,225	–	–	–	–
Options outstanding under stock-based compensation plan	546,250	–	–	–	–	–
	18,046,500	71,225	5,850,000	25,502	4,690,000	–
	24,871,500	$ 184,229	12,502,500	$ 109,434	29,908,009	$ 640,566

	May 31, 2011	February 28, 2011	March 1, 2010
Classified as:			
Equity	$ 184,529	$ 109,434	$ 406,776
Liability	–	–	233,790
	$ 184,529	$ 109,434	$ 640,566

4. Capital and other components of equity (continued):

The characteristics of the Acasti subsidiary warrants are as follows:

Series 2 allows the holder to purchase one Class A share of Acasti for $0.40 per share until November 17, 2010.

Series 4 allows the holder to purchase one class A share of Acasti for $0.25 per share until October 8, 2012.

Series 5 allows the holder to purchase one class A share of Acasti for $0.30 per share until December 31, 2010.

On April 12, 2011, NeuroBioPharm proceeded with the following transactions affecting its capital structure:

- NeuroBioPharm consolidated all classes of its capital stock on a 2:1 basis.
- NeuroBioPharm exchanged the resulting 50 Class A shares for 1,000 new Class A shares, 26,000,000 Class H shares redeemable for $0.45 per share and 6,000,000 Series 2011-1 warrants.
- NeuroBioPharm exchanged the resulting 17,500,000 Class C shares, 3,500,000 Series 4 warrants and 1,500,000 Series 5 warrants for 17,500,000 Class G shares redeemable for $0.20 per share, 3,450,075 Series 2011-2 warrants and 8,050,175 Series 2011-3 warrants.
- The Company converted its accounts receivable in the amount of approximately $850,000 into 8,500,000 Class A shares.

The characteristics of the NeuroBioPharm subsidiary warrants are as follows:

Series 4 allows the holder to purchase one Class A share of NeuroBioPharm for $0.10 per share until 24, 2013.

Series 5 allows the holder to purchase one Class A share of NeuroBioPharm for $0.20 per share until December 24, 2011.

Series 2011-1 allows the holder to purchase one Class A share of NeuroBioPharm for $0.40 per share until the earliest of the two following events: (i) fifteen (15) days after the listing to the Corporation's shares on a recognized stock exchange; or (ii) on April 12, 2014.

4. Capital and other components of equity (continued):

The characteristics of the NeuroBioPharm subsidiary warrants are as follows (continued):

Series 2011-2 allows the holder to purchase one Class A share of NeuroBioPharm for $0.47 per share until the earliest of the two following events: (i) fifteen (15) days after the listing to the Corporation's shares on a recognized stock exchange; or (ii) on April 12, 2016.

Series 2011-3 allows the holder to purchase one Class A share of NeuroBioPharm for $0.40 per share until April 16, 2016.

5. Non-controlling interest:

During the three-month period ended May 31, 2011, the Company’s participation in Acasti Pharma changed as follows:

On March 21, 2011, the outstanding Class B and Class C shares of Acasti, of 5,000,000 and 260,000, respectively, were converted into Class A shares by their holders on a 1:1 basis. Following this conversion, the Company owns 60% of class A shares, which also reflects its participation and share of the vote.

The distribution of the shareholdings of issued and outstanding Acasti Pharma’s capital stock between the Company and other shareholders as at May 31, 2011, February 28, 2011 and March 1, 2010 is detailed as follows:

			May 31, 2011
	Company	Other shareholders	Total
Class A shares	38,617,733	25,816,711	64,434,444
Votes	60%	40%	100%
Participation	60%	40%	100%

5. Non-controlling interests (continued):

			February 28, 2011
	Company	Other shareholders	Total
Class A shares	33,667,733	25,506,711	59,174,444
Class B shares	4,950,000	50,000	5,000,000
Class C shares	–	260,000	260,000
	38,617,733	25,816,711	64,434,444
Votes	76%	24%	100%
Participation	57%	43%	100%

			March 1, 2010
	Company	Other shareholders	Total
Class A shares	28,784,133	18,889,791	47,673,924
Class B shares	4,950,000	50,000	5,000,000
Class C shares	–	260,000	260,000
	33,734,133	19,199,791	52,933,924
Votes	80%	20%	100%
Participation	60%	40%	100%

Class A shares are voting (one vote per share), participating and without par value.

5. Non-controlling interests (continued):

Class B shares are voting, (ten votes per share), non-participating, without par value and maximum annual non-cumulative dividend of 5% on the amount paid for said shares. Class B shares are convertible, at the holder's discretion, into Class A shares, on a one-for-one basis, and Class B shares are redeemable at the holder's discretion for $0.80 per share, subject to certain conditions.

Class C shares are non-voting, non-participating, without par value and maximum annual non-cumulative dividend of 5% on the amount paid for said shares. Class C shares are convertible, at the holder's discretion, into Class A shares, on a one-for-one basis, and Class C shares are redeemable at the holder's discretion for $0.20 per share, subject to certain conditions.

Throughout the period ended May 31, 2011, the Company owned 99% of NeuroBioPharm's issued and outstanding capital stock.

6. Share-based payment:

Description of the share-based payment arrangements:

At May 31, 2011 the Company has the following share-based payment arrangements:

(a) Company stock-based compensation plan:

The Company has established a stock-based compensation plan for administrators, officers, 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 TSX Venture Exchange on the eve of the grant. Under this plan 6,580,000 common shares have been reserved for issuance. The terms and conditions for acquiring and exercising options are set by the Board of Directors, as well as the term of the options which, however, cannot be more than five years or any other shorter period as specified by the Board of Directors, according to the regulations of the plan. The Company's stock-option plan allows the Company to issue a number of incentive stock options not in excess of 15% of the number of shares issued and outstanding. 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 any one consultant.

Every stock option issuance in the stock option plan will be subject to conditions no less restrictive than a minimal vesting period of 18 months, with the vesting rights acquisition gradual and equal, at least on a quarterly basis.

6. Share-based payment (continued):

(a) Company stock-based compensation plan (continued):

The number and weighted average exercise prices of share options are as follows:

	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options
Outstanding at March 1, 2011 and 2010	$ 2.27	3,871,625	$ 1.63	2,920,250
Forfeited	3.38	(80,000)	2.51	(12,375)
Exercised	2.56	(67,500)	–	–
Granted	2.28	125,000	2.50	75,000
Outstanding at May 31, 2011 and 2010	$ 2.25	3,849,125	$ 1.64	2,982,875
Exercisable at May 31, 2011 and 2010	$ 2.35	1,966,980	$ 1.33	2,634,125

The fair value of options granted has been estimated according to the Black-Scholes option pricing model and based on the weighted average of the following assumptions for options granted during the three-month periods ended:

	Three-month period ended May 31, 2011	Three-month period ended May 31, 2010
Dividend	0.0234%	–
Risk-free interest	1.95%	2.01%
Estimated life	2.31 years	2.5 years
Expected volatility	69%	95%

The weighted average of the fair value of the options granted to employees during the period is $0.91 (2010 - $0.97)

6. Share-based payment (continued):

(b) Acasti Pharma stock-based compensation plan:

The subsidiary Acasti Pharma has established a stock-based compensation plan for administrators, officers, employees and consultants. The plan provides for the granting of options to purchase Acasti Class A shares. Under this plan, the maximum number of options that can be issued equals the lower of 1,530,000 or 10% of Acasti Class A shares held by public shareholders, as approved annually by such shareholders. On March 21, 2011, Acasti's Board of Directors amended the incentive stock option plan (the "Plan"). The amendments to the Plan were approved by the shareholders on June 22, 2011. The main modification to the Plan consists of an increase in the number of shares reserved for issuance of incentive stock options under the Plan to 6,443,444. As at May 31, 2011, 923,053 Class A shares are reserved for issuance. The terms and conditions for acquiring and exercising options are set by Acasti's Board of Directors, subject, among others, to the following limitations: the term of the options cannot exceed ten years and every stock option granted under the stock option plan will be subject to conditions no less restrictive than a minimal vesting period of 18 months, a gradual and equal acquisition of vesting rights, at least on a quarterly basis.

The number and weighted average exercise prices of share options are as follows:

	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options
Outstanding at March 1, 2011 and 2010	$ 0.25	800,000	$ 0.25	850,000
Forfeited	–	–	–	–
Exercised	–	–	–	–
Granted	0.75	25,000	–	–
Outstanding at May 31, 2011 and 2010	$ 0.27	825,000	$ 0.25	850,000
Exercisable at May 31, 2011 and 2010	$ 0.25	582,500	$ 0.25	382,500

6. Share-based payment (continued):

(c) NeuroBioPharm stock-based compensation plan:

On May 25, 2011, the Board of Directors approved the establishment of a stock option plan for Board members, executive officers, employees and consultants of the NeuroBioPharm. The maximum number of Class A shares that may be issued under the plan is 600,000 Class A shares, with specified individual limits established for consultants, investor relations and individuals. The exercise price of the options will be determined by the Board of Directors but may not be lower than either (i) the price per share obtained in the latest arm's length private placement within the last year and (ii) the demonstration of value in one of the following ways: formal valuation; deferred expenditures incurred within the five previous years which have contributed to or can reasonably be expected to contribute to the development of the product or technology for which NeuroBioPharm intends to conduct a recommended research and development program in the following twelve months; net tangible assets; five times average cash flows; or some other determination of value acceptable to a recognized stock exchange where the securities of NeuroBioPharm are listed. The life of the option will be a maximum of 10 years.

On May 25, 2011, 546,250 options were granted to certain directors and officers of NeuroBioPharm. These options vest over a period of two years, are exercisable at a price of $0.50 per share and will expire on May 25, 2016. The options granted under the plan are subject to the approval of the recognized stock exchange and the disinterested shareholders of the Company.

The number and weighted average exercise prices of share options are as follows:

	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options
Outstanding at March 1, 2011 and 2010	$ –	–	$ –	–
Forfeited	–	–	–	–
Exercised	–	–	–	–
Granted	0.50	546,250	–	–
Outstanding at May 31, 2011 and 2010	$ 0.50	546,250	$ –	–
Exercisable at May 31, 2011 and 2010	$ –	–	$ –	–

6. Share-based payment (continued):

d) Other stock-based compensation:

From time to time, the Company awards incentive rights to employees over Series 4 warrants it owns in its subsidiaries. The rights over Acasti warrants vest gradually until October 8, 2012, and those over NeuroBioPharm warrants, until December 24, 2012. All are subject to the employees' continued service, or having reached four years of continued service for directors.

The number and weighted average exercise prices of rights over Acasti warrants are as follows:

	Weighted average exercise price	Number of rights	Weighted average exercise price	Number of rights
Outstanding at March 1, 2011 and 2010	$ 0.27	5,792,500	$ 0.25	4,695,000
Forfeited	0.29	(17,500)	–	–
Exercised	–	–	–	–
Granted	1.25	165,000	0.52	275,000
Outstanding at May 31, 2011 and 2010	$ 0.33	5,940,000	$ 0.27	4,970,000
Exercisable at May 31, 2011 and 2010	$ 0.27	4,785,000	$ 0.25	4,186,250

The number and weighted average exercise prices of rights over NeuroBioPharm warrants are as follows:

	Weighted average exercise price	Number of rights	Weighted average exercise price	Number of rights
Outstanding at March 1, 2011 and 2010	$ 0.43	6,612,644	$ 0.10	4,590,000
Forfeited	0.49	(17,251)	–	–
Exercised	–	–	–	–
Granted	0.64	1,524,280	0.15	225,000
Outstanding at May 31, 2011 and 2010	$ 0.47	8,119,673	$ 0.10	4,815,000
Exercisable at May 31, 2011 and 2010	$ 0.43	5,231,176	$ 0.10	3,118,750

7. Partnership and collaboration agreements:

In 2008, the Company received a first payment of €500,000 out of several payments scheduled under the terms of a partnership agreement. 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. An amount of 62.5% of the initial payment is refundable only if the parties fail to meet certain development milestones, prior to the release of the products on the market. In addition, during the three-month period ended May 31, 2010, the Company received an amount of €100,000 which was conditional to the Company receiving the Novel Food status as well as meeting positive organoleptic results as defined in an amendment to the partnership agreement between the two parties. No revenues have been recognized by the Company under this agreement. An amount of $844,058 is included in "advance payments" in the consolidated statement of financial position ($823,639 - February 28, 2001; $882,620 - March 1, 2010).

The Company also entered into a collaboration agreement under which it can receive $299,860. Under the terms of the agreement, the Company will conduct a clinical research project in the effects of Neptune Krill Oil - NKO® and its concentrates on certain human health conditions. The agreement includes a period of exclusivity on the rights by the partner to the use of the clinical study results. As at May 31, 2011 and 2010, the Company has received $199,860 under the agreement with the final amount of $100,000 to be received at the conclusion of the research project. For the three-month period ended May 31, 2011, revenues of $9,464 were recognized in consolidated comprehensive income on the basis of percentage of completion of the clinical study ($16,839 - 2010). As at May 31, 2011, the difference between the payments received of $199,860 and cumulative revenues recognized to that date amounts to $95,899, and is included in "Trade and other receivables" in the consolidated statement of financial position.

8. Loans and borrowings:

This note provides information about the contractual terms of the Company's interest-bearing loans and borrowings, which are measured at amortized cost.

	May 31, 2011	February 28, 2011	March 1, 2010
Non-current liabilities			
Mortgage loan, principal balance of $3,500,000, bearing interest at the prime rate plus 2%, partly secured (38.46%) by Investissement Québec (for an annual premium of 2.5% on the secured amount), through a savings guarantee from Neptune of $1,000,000, and through a first-ranking mortgage on the plant, a first-ranking mortgage on all movable assets (except for accounts receivable and inventories), current and future, corporeal and incorporeal, and tangible and intangible except for intellectual property (which is subject to a negative pledge agreement), and a second-ranking mortgage on all accounts receivable and inventories, reimbursable in monthly principal payments of $41,667 until November 2015. The amount recorded is net of related financial expenses.	$ 2,217,524	$ 2,340,720	$ 2,833,502
Mortgage loan, principal balance of $3,000,000, bearing interest at the prime rate plus 2%, secured as indicated above, reimbursable in monthly principal payments of $36,165 until August 2014	2,242,215	2,350,710	2,820,852
Two refundable contributions obtained from a federal program available for small and medium-sized businesses, without collateral or interest, payable in semi-annual instalments of $9,701 until October 2012 and $6,562 until December 2011, respectively	42,227	51,928	84,456
Finance lease liabilities, interest rates varying from 7.1% to 10.6%, payable in average monthly instalments of $2,589 ($2,589 as at February 28, 2011 and $4,123 as at March 1, 2010), maturing at different dates until 2014	35,277	41,964	68,551
	4,537,243	4,785,322	5,807,361
Less current portion	983,152	985,491	1,002,337
Loans and borrowings - non-current	$ 3,554,091	$ 3,799,831	$ 4,805,024

8. Loans and borrowings (continued):

	May 31, 2011	February 28, 2011	March 1, 2010
Current liabilities			
Current portion of mortgage loans	$ 926,761	$ 926,761	$ 926,760
Current portion of contributions from a federal program	32,526	32,526	32,526
Current portion of finance lease liabilities	23,865	26,204	43,051
	983,152	985,491	1,002,337
Authorized operating line of credit of $1,000,000, bearing interest at the prime rate plus 2.50%, representing an effective interest rate of 5,50% (February 28, 2011 - 2.50% and 5.50%, March 1, 2010 - 2.25% and 4.50%, respectively). The line of credit is guaranteed by a first-ranking movable mortgage on all accounts receivable and inventories, a second-ranking mortgage on the production plant and a third-ranking mortgage on all other movable assets, current and future, corporeal and incorporeal, and tangible and intangible except for intellectual property (which is subject to a negative pledge agreement). The Company has an authorized exchange line of credit of $200,000, bearing interest at the prime rate plus 1.75%. The exchange line of credit is to support risk content of forward contracts. The exchange line of credit bears the same conditions as the operating line of credit. As at February 28, 2011, an amount of $630,000 was used under the operating line of credit.	–	630,000	–
	$ 983,152	$ 1,615,491	$ 1,002,337

9. Convertible debentures:

Liability balance of convertible debentures as at March 1, 2010	$ 489,842
Accrued interest	28,804
Accretion of the liability component	44,426
Debentures converted into Neptune units	(563,072)
Liability balance of convertible debentures as at May 31, 2011 and February 28, 2011	$ –

10. Determination of fair values:

Derivatives over equity:

The fair value of derivatives over the equity is determined by using valuation models incorporating the following estimates and assumptions at the following dates:

		March 1, 2010
Instrument	Acasti Series II warrant	Conversion option of convertible debentures
Valuation model	Binomial Model	Binomial Model
Dividend yield	–	–
Volatility	38.87%	154.55%
Estimate life	9 months	9 months
Risk-free rate	1.28%	1.28%

10. Determination of fair values (continued):

		May 31, 2010
Instrument	Acasti Series II warrant	Conversion option of convertible debentures
Valuation model	Binomial Model	Binomial Model
Dividend yield	–	–
Volatility	42.72%	65.16%
Estimate life	6 months	6 months
Risk-free rate	1.83%	1.83%

	May 31, 2011
Instrument	May 3, 2011 Private placement warrant - USD
Valuation model	Black & Scholes
Dividend yield	–
Volatility	55.76%
Estimate life	1.42 years
Risk-free rate	0.29%

Included in finance costs is the change in fair value of these derivatives over equity:

	May 31, 2011	May 31, 2010
Debenture conversion options	$ –	$ (198,808)
Acasti Series II warrants	–	5,396
Private placement warrants - USD	351,567	–
	$ 351,567	$ (193,412)

11. Operating segments:

The Company has three reportable segments structured in legal entities, as described below, which are the Company's strategic business units. The strategic business units offer different products and services, and are managed separately because they require different technology and marketing strategies. For each of the strategic business units, the Company's CEO reviews internal management reports on at least a quarterly basis. The following summary describes the operations in each of the Company's reportable segments:

- *Neptune* produces and commercializes nutraceutical products.
- *Acasti Pharma* Inc. develops and commercializes pharmaceutical applications for cardiovascular diseases.
- *NeuroBioPharm Inc d*evelops and commercializes pharmaceutical neurological diseases.

Information regarding the results of each reportable segment is included below. Performance is measured based on segment profit before income tax, as included in the internal management reports that are reviewed by the Company's CEO. Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries. Transfer pricing is based on predetermined rates accepted by all parties involved.

Information about reportable segments

	Nutraceutical		Cardiovascular		Neurological	
	2011	2010	2011	2010	2011	2010
Revenue from sales	$ 4,283,234	$ 4,144,673	$ –	$ –	$ –	$ –
Other income - revenue from research contracts	–	–	–	–	9,464	16,839
Research and development expense	(220,663)	(218,184)	(461,142)	(246,760)	(54,376)	(55,155)
Interest income	6,299	2,889	8,760	3,814	–	–
Financial expense	(87,457)	139,356	(385)	(149)	–	–
Depreciation and amortization	(188,677)	(183,545)	(2,686)	(2,427)	–	–
Stock-based compensation	(356,698)	(56,024)	(148,294)	(19,776)	(83,229)	(1,412)
Foreign exchange gain (loss)	140,644	(41,830)	(12,816)	276	–	–
Reportable segment (loss) profit before income tax	(69,895)	930,277	(891,583)	(365,493)	(297,391)	(70,679)
Reportable segment assets	30,677,820	17,611,339	3,066,849	708,822	169,403	204,003

12. Contingencies:

In August 2009, the Company received a complaint filed by Schiff Nutrition Group Inc. ("Schiff"), a former distributor of the Company's products, in the United States District Court for the District of Utah, Central division, alleging that the Company failed to meet certain delivery thresholds. As a result, Schiff is seeking monetary damages in the minimum amount of US$1 million from the Company.

The Company filed a response and counterclaims to the Schiff complaint in the federal district court in Utah. The Company denies all material allegations and the requested monetary compensation in the complaint and asserts federal and state law claims against Schiff, including that Schiff failed to pay the Company for shipments of NKO® accepted by Schiff, and that Schiff caused its contractor to encapsulate NKO® despite the Company's objections that the resulting product would not meet specifications after encapsulation by Schiff contractor.

No provision has been recorded by the Company as at May 31, 2011 for this matter because the outcome and the amount of loss, if any, are not determinable.

13. Related parties:

Transaction with key management personnel:

Under the terms of an agreement entered into with a company controlled by an officer and director (which is also a shareholder of the Company), the Company is committed to pay royalties of 1% of its revenues in semi-annual instalments, for an unlimited period. The annual amount disbursed cannot exceed net earnings before interest, taxes and amortization of the Company on a non-consolidated basis. For the three-month period ended May 31, 2011, total royalties included in operating expenses amounted to $45,206 (three-month period ended May 31, 2010 - $41,436). As at May 31, 2011, the balance due to this company under this agreement amounts to $222,964 (February 28, 2011 - $177,758; March 1, 2010 - $175,177). This amount is presented in the consolidated statement of financial position under "Accounts payable and accrued liabilities"

These transactions are measured at the exchange amount, which is the amount of consideration determined and accepted by the parties involved.

14. Subsequent events:

(a) Neurobiopharm partial spin-off

On June 28, 2011, NeuroBioPharm filed a Canadian non-offering prospectus to become a reporting issuer under Canadian securities regulation. Upon qualification of this prospectus with the securities regulatory authorities, 4,000,000 units of NeuroBioPharm will be distributed by way of dividend-in-kind, to the holders of record of the Company's shares. Under the terms of the proposed distribution, the holder of record of the Company's common shares on the record date will receive one unit for each lot of 12 common shares held. Each unit will consist of one Class A share of NeuroBioPharm and one-third of a Series 2011-1 warrant. The proposed distribution is subject to regulatory review and is expected to be finalized during the Company's second quarter of fiscal 2012.

(b) Acasti Rights offering

On July 5, 2011, Acasti issued to the holders of its outstanding Class A shares transferable rights to subscribe for Class A Shares. Each registered holder of Class A Shares received one Right for each Class A Share held. Ten Rights plus the sum of $1.25 are required to subscribe for one Class A Share. The Rights expire at 4:00 p.m. (Montreal time) on September 14, 2011, after which time unexercised Rights will be void and of no value.

15. Transition to IFRS:

As stated in note 2(a), these are the Company's first consolidated interim financial statements prepared in accordance with IFRS.

The accounting policies set out in note 3 have been applied in preparing the consolidated financial statements for the three-month period ended May 31, 2011, the comparative information presented in these financial statements for both the three-month period ended May 31, 2010 and the year ended February 28, 2011, and in the preparation of an opening IFRS consolidated statement of financial position at March 1, 2010 (the Company's date of transition).

In preparing its consolidated interim financial statements in accordance with IFRS 1, the Company applied the mandatory exceptions and elected to apply the following optional exemptions from full retroactive application:

(i) Borrowing costs:

The Company has elected to apply the transitional provisions of IAS 23, *Borrowing Costs* to qualifying assets being acquired since the date of transition to IFRS.

15. Transition to IFRS (continued):

(ii) Share-based payment:

The Company did not apply IFRS 2, Share-based Payment ("IFRS 2") to stock options that had vested as at March 1, 2010.

(iii) Designation of financial assets and financial liabilities:

The Company has elected to re-designate cash and cash equivalents and short-term investments from held-for-trading category to loans and receivables. As the historical cost carrying amount under IFRS equals the fair value of those instruments under Canadian GAAP at the date of transition, there is no adjustment resulting from this election.

(iv) Non-controlling interests:

The Company will apply prospectively from the date of transition to IFRSs:

- the requirement that total comprehensive income is attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance; and
- the requirements for accounting as equity transaction for changes in the parent's ownership interest in a subsidiary that do not result in a loss of control.

Consequently, the balance of non-controlling interest of nil under Canadian GAAP as at February 28, 2010 becomes the balance under IFRS at the date of transition.

As required by IFRS 1, estimates made under IFRS at the date of transition must be consistent with estimates made for the same date under Canadian GAAP (its previous GAAP), unless there is evidence that those estimates were in error.

In preparing its opening IFRS consolidated statement of financial position, the Company has adjusted amounts reported previously in the consolidated financial statements prepared in accordance with Canadian GAAP.

An explanation of how the transition from previous GAAP to IFRS has affected the Company's consolidated financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables.

15. Transition to IFRS (continued):

Reconciliation of equity

	Note	Canadian GAAP	IFRS adjust-ments	IFRS reclassi-fications	IFRS
					March 1, 2010
Assets					
Current assets:					
Cash		$ 1,093,194	$ –	$ –	$ 1,093,194
Short term investments		1,001,011	–	–	1,001,011
Trades and other receivables		3,290,654	–	–	3,290,654
Tax credits receivable		664,131	–	–	664,131
Prepaid expenses		99,859	–	–	99,859
Inventories		2,645,752	–	–	2,645,752
		8,794,601	–	–	8,794,601
Government grant receivable		150,000	–	–	150,000
Property, plant and equipment	(c)	7,398,231	(1,070,824)	–	6,327,407
Intangible assets		1,223,309	–	–	1,223,309
Total assets		$ 17,566,141	$ (1,070,824)	$ –	$16,495,317
Liabilities and Equity					
Current liabilities:					
Loans and borrowings		$ 1,002,337	$ –	$ –	$ 1,002,337
Trade and other payables		2,416,413	–	–	2,416,413
Advance payments		878,814	–	–	878,814
		4,297,564	–	–	4,297,564
Loans and borrowings		4,805,024	–	–	4,805,024
Convertible debentures	(g)	467,864	21,978	–	489,842
Debenture conversion options	(g)	–	489,462	–	489,462
Derivative financial liabilities	(f)	–	233,790	–	233,790
Total liabilities		9,570,452	745,230	–	10,315,682
Equity					
Share capital		25,237,122	25	–	25,237,147
Warrants		293,040	57,568	–	350,608
Contributed surplus	(g)	9,115,761	(80,430)	–	9,035,331
Deficit		(26,813,240)	(2,036,987)	–	(28,850,227)
Total equity attributable to equity holders of the Company		7,832,683	(2,059,824)	–	5,772,859
Non-controlling interest		–	–	–	–
Subsidiary options		163,006	243,770	–	406,776
Total equity attributable to non-controlling interest		163,006	243,770	–	406,776
Total equity		7,995,689	(1,816,054)	–	6,179,635
Total liabilities and equity		$ 17,566,141	$ (1,070,824)	$ –	$16,495,317

15. Transition to IFRS (continued):

Reconciliation of equity

					May 31, 2010
	Note	Canadian GAAP	IFRS adjust-ments	IFRS reclassi-fications	IFRS
Assets					
Current assets:					
Cash		$ 2,153,650	$ –	$ –	$ 2,153,650
Short term investments		1,001,011	–	–	1,001,011
Trades and other receivables		3,109,601	–	–	3,109,601
Tax credits receivable		363,843	–	–	363,843
Prepaid expenses		376,672	–	–	376,672
Inventories		3,814,946	–	–	3,814,946
		10,819,723	–	–	10,819,723
Government grant receivable		150,000	–	–	150,000
Property, plant and equipment	(c)	7,397,995	(1,067,879)	–	6,330,116
Intangible assets		1,224,442	–	–	1,224,442
Total assets		$19,592,160	$ (1,067,879)	$ –	$18,524,281
Liabilities and Equity					
Current liabilities:					
Loans and borrowings		$ 1,002,833	$ –	$ –	$ 1,002,833
Trade and other payables		2,843,180	–	–	2,843,180
Advance payments		799,343	–	–	799,343
		4,645,356	–	–	4,645,356
Loans and borrowings		4,535,694	–	–	4,535,694
Convertible debentures	(g)	489,279	25,108	–	514,387
Debenture conversion options	(g)	–	290,654	–	290,654
Derivative financial liabilities	(f)	–	239,140	–	239,140
Total liabilities		9,670,329	554,902	–	10,225,231
Equity					
Share capital		26,844,146	25	–	26,844,171
Warrants		20,506	(1,097)	–	19,409
Contributed surplus		9,231,016	322,807	–	9,553,823
Deficit		(26,336,843)	(1,778,855)	–	(28,115,698)
Total equity attributable to equity holders of the Company		9,758,825	(1,457,120)	–	8,301,705
Non-controlling interest	(h)	–	(167,843)	–	(167,843)
Subsidiary options		163,006	2,182	–	165,188
Total equity attributable to non-controlling interest		163,006	(165,661)	–	(2,655)
Total equity		9,921,831	(1,622,781)	–	8,299,050
Total liabilities and equity		$19,592,160	$ (1,067,879)	$ –	$18,524,281

15. Transition to IFRS (continued):

Reconciliation of equity

	Note	Canadian GAAP	IFRS adjust-ments	IFRS reclassi-fications	IFRS
					February 28, 2011
Assets					
Current assets:					
Short term investments		$ 3,512,858	$ –	$ –	$ 3,512,858
Trades and other receivables		5,627,191	–	–	5,627,191
Tax credits receivable		644,753	–	–	644,753
Prepaid expenses		968,530	–	–	968,530
Inventories		4,544,917	–	–	4,544,917
		15,298,249	–	–	15,298,249
Government grant receivable		150,000	–	–	150,000
Property, plant and equipment	(c)	7,023,868	(916,340)	–	6,107,528
Intangible assets		1,268,867	–	–	1,268,867
Total assets		$ 23,740,984	$ (916,340)	$ –	$ 22,824,644
Liabilities and Equity					
Current liabilities:					
Bank overdraft		$ 39,533	$ –	$ –	$ 39,533
Loans and borrowings		1,615,491	–	–	1,615,491
Trade and other payables		3,258,063	–	–	3,258,063
Advance payments		823,639	–	–	823,639
		5,736,726	–	–	5,736,726
Loans and borrowings		3,799,831	–	–	3,799,831
Convertible debentures		–	–	–	–
Total liabilities		9,536,557	–	–	9,536,557
Equity					
Share capital		31,191,965	79,695	–	31,271,660
Warrants		99,568	5,419	–	104,987
Contributed surplus		9,283,997	226,146	–	9,510,143
Deficit		(26,480,537)	(2,299,440)	–	(28,779,977)
Total equity attributable to equity holders of the Company		14,094,993	(1,988,180)	–	12,106,813
Non-controlling interest	(h)	–	1,071,840	–	1,071,840
Subsidiary options		109,434	–	–	109,434
Total equity attributable to non-controlling interest		109,434	1,071,840	–	1,181,274
Total equity		14,204,427	(916,340)	–	13,288,087
Total liabilities and equity		$ 23,740,984	$ (916,340)	$ –	$ 22,824,644

15. Transition to IFRS (continued):

Reconciliation of earnings and comprehensive income for the three-month period ended May 31, 2010

	Note	Canadian GAAP	IFRS adjust-ments	IFRS reclassi-fications	IFRS
Revenue from sales and research contracts		$ 4,161,512	$ –	$ (16,839)	$ 4,144,673
Cost of sales and operating expenses		(2,971,499)	–	1,274,181	(1,697,318)
Gross profit		1,190,013	–	1,257,342	2,447,355
Other income - revenue from research contract		–	–	16,839	16,839
Gain on dilution		272,298	(272,298)	–	–
Amortization	(c)	(201,083)	15,111	185,972	–
Stock-based compensation	(d)	(114,745)	37,533	77,212	–
Selling expenses		–	–	(258,357)	(258,357)
General and administrative expenses		–	(11,586)	(1,279,008)	(1,290,594)
Research and development expenses, net of tax credit of $126,927		(520,098)	–	–	(520,098)
		626,385	(231,240)	–	395,145
Interest income		6,703	–	–	6,703
Finance costs		(115,137)	248,948	–	133,811
Foreign exchange loss		(41,554)	–	–	(41,554)
Net finance (expense) income		(149,988)	248,948	–	98,960
Net profit and total comprehensive income for the period		$ 476,397	$ 17,708	$ –	$ 494,105
Net profit and comprehensive income attributable to:					
Owner of the Company					$ 734,366
Non-controlling interest					(240,261)
Net profit and comprehensive income for the period					$ 494,105
Basic earnings per share		$ 0.01			$ 0.01
Diluted earnings per share		0.01			0.01

15. Transition to IFRS (continued):

Reconciliation of comprehensive income for the year ended February 28, 2011

	Note	Canadian GAAP	IFRS adjust-ments	IFRS reclassi-fications	IFRS
Revenue from sales and research contracts		$ 16,685,383	$ –	$ (102,629)	$ 16,582,754
Cost of sales and operating expenses		(13,901,693)	–	6,721,861	(7,179,832)
Gross profit		2,783,690	–	6,619,232	9,402,922
Other income – revenue from research contract		–	–	102,629	102,629
Selling expenses		–	–	(1,353,599)	(1,353,599)
General and administrative expenses		–	–	(6,895,607)	(6,895,607)
Research and development expenses, net of tax credit of $266,676		(2,535,156)	–	–	(2,535,156)
Amortization	(c)	(922,566)	132,761	789,805	–
Stock-based compensation	(d)	(719,823)	(17,717)	737,540	–
Loss from sale of property, plant and equipment		(99,337)	21,749	–	(77,588)
Impairment of property, plant and equipment		(139,306)	–	–	(139,306)
Gain on dilution		2,765,029	(2,765,029)	–	–
		1,132,531	(2,628,236)	–	(1,495,705)
Interest income		22,381	–	–	22,381
Finance costs		(442,953)	591,544	–	148,591
Foreign exchange loss		(196,042)	–	–	(196,042)
Net finance expense		(616,614)	591,544	–	(25,070)
Net profit (loss) and total comprehensive income (loss) for the period		$ 515,917	$ (2,036,692)	$ –	$ (1,520,775)
Net profit (loss) and comprehensive income (loss) attributable to:					
Owner of the Company					$ (411,082)
Non-controlling interest					(1,109,693)
Net profit (loss) and comprehensive income (loss) for the period					$ (1,520,775)
Basic earnings (loss) per share		$ 0.01			$ (0.04)
Diluted earnings (loss) per share		0.01			(0.04)

There are no material differences between the consolidated statement of cash flows presented under IFRS and the consolidated statement of cash flows under previous Canadian GAAP.

15. Transition to IFRS (continued):

Notes to the reconciliations:

(a) Reconciliation of equity:

	Note	March 1, 2010	May 31, 2010	February 28, 2011
Equity under Canadian GAAP		$ 7,995,689	$ 9,921,831	$ 14,204,427
Adjustments:				
Property, plant and equipment	(c)	(1,070,824)	(1,067,879)	(916,340)
Convertible debenture	(g)	(21,978)	(25,108)	–
Debenture conversion options	(g)	(489,462)	(290,654)	–
Derivative financial liabilities	(f)	(233,790)	(239,140)	–
Equity under IFRS		$ 6,179,635	$ 8,299,050	$ 13,288,087

(b) Reconciliation of comprehensive income:

	Note	Three-month month period May 31, 2010	Year ended February 28, 2011
Comprehensive income (loss) under Canadian GAAP		$ 476,397	$ 515,917
Adjustments:			
Property, plant and equipment	(c)	15,111	154,510
Share-based payments	(d)	37,533	(17,717)
Finance costs		237,362	591,544
Gain on dilution	(h)	(272,298)	(2,765,029)
		$ 494,105	$ (1,520,775)

15. Transition to IFRS (continued):

(c) Property, plant and equipment - component accounting

Under Canadian GAAP, the Company did not apply component accounting to the significant separable component parts of an item of property, plant and equipment since no guidance was provided on evaluating the cost of a component, replacement of a component and the level at which component accounting is required. In accordance with IFRSs, the Company applied component accounting to its buildings

(d) Share based payment - equity instruments

As permitted by IFRS 1, the Company elected to apply the exemptions for share-based payments for equity instruments granted after November 7, 2002 that vested before the transition to IFRSs.

In some cases, stock-based awards vest in installments over a specified vesting period. Under IFRS, when the only vesting condition is service from the grant date to the vesting date of each tranche awarded, each installment of the award is accounted for as a separate share-based payment arrangement, otherwise known as graded vesting. In addition, under IFRS, forfeitures are estimated at the time of the grant, which is revised if subsequent information indicates that actual forfeitures are likely to differ from the estimate. Under previous Canadian GAAP, the Company accounted for stock-based awards that vested in installments as a single award with a vesting period based on the total life of the award. In addition, forfeitures were not considered at the time of grant but accounted for as they occurred, as permitted under Canadian GAAP.

Under previous Canadian GAAP, no expense was recognized for share-based awards pending shareholders' approval, unless approval was assured. Under IFRS, share-based awards are recognized when the services are received and may result in the recognition of an expense prior to the grant date. The entity estimates the grant-date fair value of the equity instruments for the purpose of recognizing the services from the service commencement date until grant date by assuming that the end of the reporting period is the grant date. Until the grant date has been established, the entity revises the earlier estimates so that the amounts recognized for services received are based on the grant-date fair value of the equity instruments. This revision is treated as a change in estimate and the impact on the share-based payment expense is adjusted in each period accordingly.

The effects of those differences were a decrease to contributed surplus and stock-based compensation expense in the amount of $37,533 for the three-month period ended May 31, 2010 and an increase of $17,717 for the year ended February 28, 2011.

15. Transition to IFRS (continued):

(e) Debenture Call-Options

Under previous Canadian GAAP, the Debenture Call-Options over Acasti shares issued by Neptune were determined to be an equity instrument. Under IFRS, the Company concluded that the Debenture Call-Options are classified as liabilities until November 15, 2009, as their conversion ratio remained subject to adjustment if a new financing had been concluded at a price per Class A share below $0.25 until that date. After the expiry of this feature, the instrument was determined to meet the criteria for equity classification.

As derivative liabilities are to be recorded at their fair values through profit and loss, the Company determined that the instruments outstanding as at November 15, 2009 had a fair value of $244,612. In reconciling to IFRS, the increase in fair value from the grant-date nil carrying amount was recognized as a pre-transition loss, which became the carrying amount of the non-controlling interest equity instrument subsequent to November 15, 2009 and therefore at the date of transition.

(f) Warrants

The Company issued warrants that are still outstanding at the date of transition. Under previous Canadian GAAP, these warrants were equity-classified, recorded at their initial fair value in shareholder’s equity and were not re-measured subsequently. Under IFRS, the Company determined that all warrants issued by the Company met the criteria for equity classification with the exception of the Acasti Series II warrants. These warrants are not equity-classified under IFRS as the settlement alternatives for these warrants also provide for a cash-settlement option for the issuer. As a result, the warrants are classified as a liability and accounted as freestanding derivative financial instruments with changes in fair value recognized in income at each reporting date.

The Company valued the Acasti Series II warrants at the date of transition, at each subsequent interim reporting date, and immediately before settlement, using the models and assumptions described in note 10. The estimated fair value is recorded in the consolidated balance sheets in “Derivative financial liabilities”. Because the warrants had a nil carrying amount in equity, the only reclassification from equity upon transition was to charge the estimated fair value of $233,790 to retained earnings at that date.

15. Transition to IFRS (continued):

(f) Warrants (continued)

Subsequent changes in the estimated fair value of the Acasti Series II warrants through to expiry were recorded as adjustments to finance costs in the statement of comprehensive income. Consequently, a fair value increase of $5,396 was recognized as an adjustment for the three month period ended May 31, 2010, and a fair value decrease of $107,625 was recognized as an adjustment for the year ended February 28, 2011.

(g) Convertible debentures

In 2008, the Company issued convertible debentures that were partially outstanding at the date of transition.

Under previous Canadian GAAP, the convertible debentures were treated as compound instrument containing a debt and an equity component. On initial recognition of the debentures, the proceeds received were allocated to their component parts based on the proportionate fair value method. The amount recorded in equity for the above notes was not re-measured subsequent to their initial recognition under previous Canadian GAAP.

Under IFRS, convertible debentures are treated as hybrid financial instruments comprising debt and embedded derivative. The equity conversion option, previously recognized as the equity component under Canadian GAAP, was determined to be a liability-classified embedded derivative. Under IFRS, a derivative over an entity's own equity can be classified as equity when it is to be settled through the exchange of a fixed number of shares for a fixed consideration. The option to settle into Neptune units did not meet this requirement, as the Conversion Warrants would be settled by using an amount of cash that varies until conversion occurs. Consistent with practice under IFRS, the fair value of the embedded derivative would have been recorded in full at the issue date. The detachable financial instruments would have also been recorded at full value as a cost of financing. Those components have previously been measured at their proportionate issue date fair value under Canadian GAAP. As a result, the issue date carrying amount of the debt host was reduced and a new effective interest rate was determined to accrete the amount to the principal value through maturity. At the date of transition, the IFRS amortized cost of the debenture was determined to be $21,978 higher than under previous GAAP and the carrying amount of Debenture Warrants to be $57,568 higher. Those differences were charged to retained earnings at that date.

15. Transition to IFRS (continued):

(g) Convertible debentures (continued)

The Company valued the embedded equity conversion derivative at the date of transition, at each subsequent interim reporting date, and immediately before settlement, using the models and assumptions described in note 10. The estimated fair value is recorded in the consolidated balance sheets in “Debenture conversion options”.

At the date of transition, the carrying amount of the Canadian GAAP equity component of $80,430 was reclassified to this account, along with an increment of $409,032 from retained earnings to reflect fair value at that date.

Subsequent changes in the estimated fair value of the embedded derivative through to expiry were recorded as adjustments to finance costs in the statement of comprehensive income, along with the increase in accretion expense. Consequently, a net charge of $174,263 was recognized as an adjustment for the three month period ended May 31, 2010, and a net charge of $280,249 was recognized as an adjustment for the year ended February 28, 2011.

(h) Non-controlling interest

At the date of transition, Neptune applied IAS 27 - *Consolidated and Separate Financial Statements*, as amended in 2008. The accounting guidance under IFRS impacted the Company’s accounting for non-controlling interest in three different ways compared to previous Canadian GAAP.

First, in determining consolidated comprehensive income, deduction is made for the portion attributable to the non-controlling interest, and the non-controlling interest is presented as a separate component of consolidated equity. Second, the non-controlling interest continues to be attributed its share of losses of a subsidiary even if that attribution results in a deficit non-controlling interest balance. Third, transactions with non-controlling interest that do not result in a change in control of the subsidiary are treated as equity transactions, with no gain or loss on dilution being recognized.

As previously noted, the Company uses an exemption from retrospective application, and therefore, the requirements were applied prospectively from March 1, 2010. As a result, the carrying amount of nil non-controlling interest under Canadian GAAP was determined to be the IFRS carrying amount at that date.

The recognition of the gain on dilution under Canadian GAAP, in the amount of $2,765,029 for the year ended February 28, 2011 and $272,298 for the three month period ended May 31, 2010 were reversed, as they are now accounted for as an equity transaction. This entry has no impact on the shareholders’ equity reconciliation as it is already included therein.

15. Transition to IFRS (continued):

(h) Non-controlling interest (continued)

In accordance with new guidance, the Company allocated losses of its majority-owned subsidiary Acasti to controlling and non-controlling interests based on their proportionate shareholdings in Acasti's Class A shares throughout the year. Also, it calculated the changes in carrying amounts of non-controlling interest for each transaction that occurred during the year.

The following details the changes in non-controlling interest in accordance with IFRS:

	Three-month month period May 31, 2010	Year ended February 28, 2011
Non-controlling interest, beginning of period	$ –	$ –
Exercise of Debenture Call-Options	72,418	72,418
Exercise of Conversion Call-Options	–	124,488
Exercise of subsidiary warrants by Neptune	–	1,281,179
Exercise of subsidiary warrants by third parties	–	703,449
Net loss and comprehensive loss attributable to the non-controlling interest	(240,261)	(1,109,694)
	$ (167,843)	$ 1,071,840

(i) Presentation of statement of operations

As the Company has elected to present its analysis of expenses recognized in comprehensive loss using a classification based on their function with the Company, amortization expense and stock-based compensation expense were reallocated to general and administrative expenses.