



First Quarterly Report
Ending August 31, 2004



NEPTUNE
technologies & bioresources

Management's Discussion and Analysis Of Financial Condition and Results of Operations

The following analysis explains the variations in the Company's results of operations, financial condition and cash flow. This discussion should be read in conjunction with the information contained in Neptune Technologies & Bioresources inc.'s interim financial statements and related notes for the three-month period ended on August 31, 2004 and 2003. All figures are in Canadian dollars.

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

The Company

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

Review of the three-month period ending August 31st 2004

During this quarter, the Company has continued its progress and its effort in the commercialization of its products. The Company has been present at different trade shows in Europe and North America.

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

During this quarter, the Company got closer to its main short term objective which is the break even point for this fiscal year. The marketing strategy is starting to show good results which make the Management confident in reaching that objective.

Operating Results

During the first quarter ending August 31st 2004, the Company has reduced its loss for more than 50% compared to the quarter ending August 31st 2003. The net loss being \$388,230 (0,015 per share) compared with \$799,362 (\$0,037 per share) for the quarter ending August 31st, 2003.

During the first quarter ending August 31st, 2004, the Company has almost doubled its sales compared to quarter ending August 31st, 2003, the sales reaching \$1,134,284 compared to \$643,272 for the quarter ending August 31st, 2003. These sales were primarily recorded in Quebec and United States.

During the first quarter ending August 31st, 2004, the operating expenses amounted to \$1,522,619 compared with \$1,445,090 for the quarter ending August 31st, 2003. The Company has increased its operating expenses of only \$80,000 between these two quarters but managed to increase sales by more than \$500,000 between the two quarters ending August 31st, 2004 and 2003.

Balance Sheet

As of August 31st 2004, total assets for the Company reached \$7,958,531 compared with \$7,921,588 as of May 31st 2004. This increase is due in large part by an increase in accounts receivable for an amount of \$471,125. This increase is partially offset by a decrease in stocks for \$354,814.

As of August 31st 2004, the Company showed working capital of \$610,537 compared to \$97,602 as of May 31st, 2004. This increase is mainly due to the private placement of \$655,184 of July 2004.

Financing

On July 7, 2004, the Company issued 371,639 common shares at a price of \$0.15 per share in order to settle certain amounts owing to administrators (in the amount of \$40,476) and a creditor (in the amount of \$15,000). On July 13, 2004, the Company completed a private placement (in the amount of \$655,184), following the issue of 3,275,922 units at a price of \$0.20 each. Each unit includes a common share and a stock purchase warrant allowing the holder to obtain a common share at a price of \$0.25 for a 24-month period.

Outlook

The Company is determined to reach the break even point before the end of the ongoing fiscal year. In order to achieve this goal, the Company will have to pursue its marketing efforts initiated in the previous fiscal year in North America and increase its efforts for the Asian and European Markets. The Company is now taking the necessary steps in order to obtain the regulatory authorizations to sell its products in Europe and Asia. The products need to be approved by the authorities in order to commercialize the products.

Also, the Company, in a joint effort with the “Université de Sherbrooke”, is proceeding with the exercise of the option to acquire the exploited intellectual property.

Finally, the Company is always working at improving its productivity at its Sherbrooke plant and is presently finalizing its request to obtain from Health Canada the General Manufacturing Practice certification.

Neptune Technologies & Bioresources inc.

Interim Consolidated Statement of Earnings (unaudited)

	Three months ended	
	August 31,	
	2004	2003
	\$	\$
Sales	1,134,284	643,272
Cost of sales and operating expenses (before amortization)	971,934	937,342
Research expenses	38,054	61,054
Financial expenses	269,309	210,449
Amortization of property and equipment	243,322	236,245
	1,522,619	1,445,090
Loss before interest income	388,335	801,818
Interest income	105	2,456
Net loss	388,230	799,362
Basic and diluted loss per share	0.015	0.037
Weighted average number of shares outstanding	25,066,383	21,763,960

Neptune Technologies & Bioresources inc.

Interim Consolidated Statement of Deficit Interim Consolidated Contributed Surplus

(unaudited)

Interim Consolidated Statement of Deficit

(unaudited)

	Three months ended	
	August 31,	
	2004	2003
	\$	\$
Balance, beginning of year	12,194,383	8,660,371
Net loss	388,230	799,362
Share issue expenses	20,469	
Balance, end of year	12,603,082	9,459,733

Interim Consolidated Contributed Surplus

(unaudited)

	Three months ended	
	August 31,	
	2004	2003
	\$	\$
Balance, beginning of year	187,754	4,005
Expired warrants	62,049	27,210
Stock-based compensation - employees	26,605	
Stock-based compensation - non-employees		102,200
Balance, end of year	276,408	133,415

Neptune Technologies & Bioresources inc.

Interim Consolidated Statement of Cash Flows (unaudited)

	Three months ended	
	August 31,	
	2004	2003
	\$	\$
OPERATING ACTIVITIES		
Net loss	(388,230)	(799,362)
Non-cash items		
Amortization of property and equipment	243,322	236,245
Amortization of deferred financing costs	6,282	5,194
Financial expenses	161,081	103,567
Stock-based compensation - employees	26,605	
Changes in working capital items	(480,823)	(610,228)
Cash flows from operating activities	(431,763)	(1,064,584)
INVESTING ACTIVITIES		
Property and equipment		(498)
Intangible assets	(13,965)	
Cash flows from investing activities	(13,965)	(498)
FINANCING ACTIVITIES		
Repayment of long-term debt	(38,714)	(18,461)
Issue of convertible debentures		250,000
Issue of capital stock	370,839	
Issue of warrants	340,092	
Share issue expenses	(15,280)	
Cash flows from financing activities	656,937	231,539
Increase (decrease) in cash and cash equivalents	211,209	(833,543)
Cash and cash equivalents, beginning of period	(46,955)	934,997
Cash and cash equivalents, end of period	164,254	101,454

Neptune Technologies & Bioressources inc.

Interim Consolidated Balance Sheets

	Unaudited August 31, 2004 \$	Véifié 31 mai 2004 \$
ASSETS		
Current assets		
Cash	164,254	
Accounts receivable	1,056,683	585,558
Research tax credits receivable	99,896	87,638
Inventories	892,968	1,247,782
Prepaid expenses	45,785	60,837
	2,259,586	1,981,815
Property and equipment	4,285,389	4,425,784
Intangible assets	499,706	486,367
Other assets	913,850	1,027,622
	7,958,531	7,921,588
LIABILITIES		
Current liabilities		
Bank overdraft		46,640
Accounts payable and accrued liabilities		
Company controlled by an officer and director	39,437	29,445
Directors	17,582	42,000
Other	773,813	1,127,007
Instalments on long-term debt	818,217	639,121
	1,649,049	1,884,213
LONG-TERM DEBT (Note 3)	2,946,364	3,151,258
LIABILITY COMPONENT OF CONVERTIBLE DEBENTURES (Note 4)	4,692,961	4,544,797
	9,288,374	9,580,268
SHAREHOLDERS' EQUITY (DEFICIENCY)		
Capital stock and warrants (Note 5)	10,996,831	10,347,949
Contributed surplus	276,408	187,754
Deficit	(12,603,082)	(12,194,383)
	(1,329,843)	(1,658,680)
	7,958,531	7,921,588

Neptune Technologies & Bioresources inc.

Notes to Interim Financial Statements

August 31, 2004 (unaudited)

1 - INTERIM FINANCIAL INFORMATION

These interim consolidated financial statements as at August 31, 2004 are unaudited. They have been prepared by the Company in accordance with generally accepted accounting principles in Canada for interim information and use the same accounting policies and methods of computation as the consolidated financial statements for the fiscal year ended May 31, 2003. These interim consolidated financial statements should be read in conjunction with the audited annual consolidated financial statements and notes thereto in the Company's 2003 annual report.

2 - RELATED PARTY TRANSACTIONS

In virtue of a service agreement with a shareholder (a company controlled by an officer and director), the Company paid monthly service fees of \$5,000. During the period, total fees amount is nil (\$5,000 in 2003). As at August 31, 2004, no balance is due to this shareholder (nil as at May 31, 2004). This agreement ended July 1, 2003.

The Company also entered into an agreement with this shareholder, as of June 1, 2002, calling royalties to be paid in semi-annual instalments of 1% of net annual sales, for an unlimited period. The amount paid cannot exceed net earnings before interest, taxes and amortization. For the current period, total royalties amount to \$9,992 (\$6,440 in 2003). As at August 31, 2004, the balance due to this shareholder amounts to \$39,437 (\$29,445 as at May 31, 2004). This amount is shown on the balance sheet under accounts payable and accrued liabilities.

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

Neptune Technologies & Bioresources inc.

Notes to Interim Financial Statements

August 31, 2004 (unaudited)

3 - DETTE À LONG TERME

	August 31, 2004	May 31, 2004
	\$	\$
Mortgage loan, \$1,200,000 par value, secured by processing and laboratory equipment having an amortized cost of \$3,153,304 in 2004, prime rate plus 6.25% , payable in monthly capital instalments of \$20,000, with a moratorium up until September 2004, maturing in June 2009	1,140,000	1,140,000
Mortgage loan, \$980,000 par value less the net value of series "E" warrants, secured by the universality of property, weekly variable interest rate determined by the lender plus 1.25%, payable in 60 monthly capital instalments of \$16,333 beginning in January 2005, maturing in December 2009	944,701	941,623
Mortgage loan, \$1,500,000 par value less the net value of the issued shares, secured by the universality of property, weekly variable interest rate determined by the lender plus 2.25%, payable in 60 monthly capital instalments of \$25,000 beginning in October 2004, maturing in September 2009	1,399,394	1,389,555
9% unsecured loan, payable in monthly blended instalments of \$993, maturing in September 2005	12,259	14,922
Unsecured loan, without interest, maturing in June 2004	70,000	70,000
Obligations under capital leases, interest rates varying from 0.00% to 12.67%, payable in monthly instalments of \$13,188, maturing at different dates up until September 2008	198,227	234,279
	3,764,581	3,790,379
Instalments due within one year	818,217	639,121
	2,946,364	3,151,258

4 - LIABILITY COMPONENT OF CONVERTIBLE DEBENTURES

	August 31, 2004	May 31, 2004
	\$	\$
Unsecured convertible debenture (a face amount of \$1,500,000, bearing interest at 15%)	2,062,500	2,006,250
Secured convertible debenture (a face amount of \$1,261,780, bearing interest at 15% compounded annually)	1,505,461	1,451,047
Unsecured convertible debenture (a face amount of \$1,000,000, bearing interest at 15%)	1,125,000	1,087,500
	4,692,961	4,544,797

Neptune Technologies & Bioresources inc.

Notes to Interim Financial Statements

August 31, 2004 (unaudited)

5 - CAPITAL STOCK AND WARRANTS

	August 31, 2004	May 31, 2004
	\$	\$
Issued and fully paid		
25,594,805 common shares (21,947,244 common shares as at May 31, 2004)	10,656,738	10,285,899
- series "E" warrants (196,000 warrants as at May 31, 2004)		62,049
250,000 series "G" warrants	1	1
3,025,922 series "H" warrants	302,592	
250,000 series "I" warrants	37,500	
	340,093	62,050
	10,996,831	10,347,949

During the period, changes in the Company's issued capital stock were as follows:

	Number of shares	Consideration \$
Common shares		
Balance as at May 31, 2004	21,947,244	10,285,899
Issued upon the receipt of the private placement	3,275,922	315,093
Issued in consideration of a debt settlement	371,639	55,746
Balance as at August 31, 2004	25,594,805	10,656,738

On June 9, 2004, as part of a \$605,185 private placement, the Company granted 3,025,922 series "H" warrants, for which the value has been established at \$302,592 according to the Black-Scholes model. The Company chose to determine the value of the warrants by using the following assumptions:

- i) Fair value of the common shares at \$0.18
- ii) Exercise price of \$0.25
- iii) Risk-free interest rate of 3.29%
- iv) Estimated life of two years
- v) Expected volatility of 121%

The series "H" warrants entitle their holder to purchase one common share at \$0.25 each, at any time up until June 9, 2006.

On July 13, 2004, as part of a \$50,000 private placement, the Company granted 250,000 series "I" warrants, for which the value has been established at \$37,500 according to the Black-Scholes model. The Company chose to determine the value of the warrants by using the following assumptions:

- i) Fair value of the common shares at \$0.25
- ii) Exercise price of \$0.25
- iii) Risk-free interest rate of 3.10%
- iv) Estimated life of two years
- v) Expected volatility of 121%

The series "I" warrants entitle their holder to purchase one common share at \$0.25 each, at any time up until July 13, 2006.

Neptune Technologies & Bioresources inc.

Notes to Interim Financial Statements

August 31, 2004 (unaudited)

6 - STOCK-BASED COMPENSATION PLAN

Activities within the plan are detailed as follows:

	August 31, 2004		May 31, 2004	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
		\$		\$
Options outstanding, beginning of period	2,280,000	0.88	1,260,000	1.00
Attributed			1,260,000	0.75
Exercised				
Cancelled	(350,000)	0.99	(240,000)	0.88
Options outstanding, end of period	1,930,000	0.85	2,280,000	0.88
Exercisable options, end of period	1,295,000	0.91	1,540,000	0.94

	Options outstanding			Exercisable options	
	Weighted average exercise price	Weighted remaining contractual life outstanding	Number of options outstanding as at August 31, 2004	Number of options exercisable as at August 31, 2004	Weighted average exercise price
	\$				\$
	1.00	1.78	810,000	810,000	1.00
	0.75	3.89	1,120,000	485,000	0.75
	0.85	3.01	1,930,000	1,295,000	0.91