



Second Quarterly Report  
Ending November 30, 2005

## Neptune Technologies & Bioresources inc.

### Interim Consolidated Statement of Earnings (unaudited)

	Three months ended		Six months ended	
	2005	November 30, 2004	2005	November 30, 2004
			\$	\$
<b>Sales</b>	<b>1 445 052</b>	1 179 546	3 266 793	2 313 830
Cost of sales and operating expenses (before amortization)	<b>1 185 330</b>	1 054 030	2 678 929	2 025 964
Research expenses	<b>67 751</b>	40 589	128 375	78 643
Financial expenses	<b>293 933</b>	250 866	596 900	501 975
Amortization	<b>251 187</b>	243 373	536 362	486 695
	<b>1 798 201</b>	1 588 858	3 940 566	3 093 277
Loss before other revenue (expenses)	<b>353 149</b>	409 312	673 773	779 447
Interest income	<b>217</b>	300	412	405
Exchange loss	<b>(27 411)</b>	(93 631)	(96 810)	(111 831)
<b>Net loss</b>	<b>380 343</b>	502 643	770 171	890 873
Basic and diluted loss per share	<b>0,015</b>	0,020	0,030	0,035
Weighted average number of shares outstanding	<b>25 594 805</b>	25 594 805	25 594 805	25 330 594

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## Neptune Technologies & Bioresources inc.

### Interim Consolidated Statement of Deficit Interim Consolidated Contributed Surplus (unaudited)

### Interim Consolidated Statement of Deficit (unaudited)

	Three months ended November 30,		Six months ended November 30,	
	2005	2004	2005	2004
	\$	\$	\$	\$
Balance, beginning of year	14 372 265	12 603 082	13 982 437	12 194 383
Net loss	380 343	502 643	770 171	890 873
Share issue expenses				20 469
Balance, end of year	14 752 608	13 105 725	14 752 608	13 105 725

### Interim Consolidated Contributed Surplus (unaudited)

	Three months ended November 30,		Six months ended November 30,	
	2005	2004	2005	2004
			\$	\$
Balance, beginning of year	419 232	276 408	345 387	187 754
Expired warrants				62 049
Stock-based compensation - employees	47 210	25 764	115 120	52 369
Stock-based compensation - non-employees	5 828	7 319	11 763	7 319
Balance, end of year	472 270	309 491	472 270	309 491

## Neptune Technologies & Bioresources inc.

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

	Three months ended		Six months ended	
	2005	November 30, 2004	2005	November 30, 2004
	\$	\$	\$	\$
<b>OPERATING ACTIVITIES</b>				
Net loss	(380 343)	(502 643)	(770 171)	(890 873)
Non-cash items				
Amortization of property and equipment	251 187	243 373	536 362	486 695
Amortization of deferred financing costs	8 716	6 277	14 998	12 559
Financial expenses	189 919	159 443	380 070	320 524
Stock-based compensation - employees	47 210	33 083	115 120	59 688
Stock-based compensation - non-employees	5 828		11 763	
Changes in working capital items	(561 257)	270 792	(684 910)	(210 346)
Cash flows from operating activities	(438 740)	210 325	(396 768)	(221 753)
<b>INVESTING ACTIVITIES</b>				
Immobilisations of property and equipment	(5 093)	(2 015)	(5 093)	(2 015)
Intangible assets	(17 974)	(15 379)	(53 001)	(29 344)
Other assets	(10 977)		(10 977)	
Cash flows from investing activities	(34 044)	(17 394)	(69 071)	(31 359)
<b>FINANCING ACTIVITIES</b>				
Repayment of long-term debt	(19 819)	(29 365)	(77 382)	(68 079)
Issue of capital stock	568 981		568 981	370 839
Issue of warrants				340 092
Share issue expenses				(15 280)
Cash flows from financing activities	549 162	(29 365)	491 599	627 572
<b>Increase (decrease) in cash and cash equivalents</b>	<b>76 378</b>	<b>163 566</b>	<b>25 760</b>	<b>374 460</b>
Cash and cash equivalents, beginning of period	131 332	164 254	181 950	(46 640)
Cash and cash equivalents, end of period	207 710	327 820	207 710	327 820

# Neptune Technologies & Bioresources inc.

## Interim Consolidated Balance Sheets

	Audited November 30, 2005	Audited May 31 2005
	\$	\$
<b>ASSETS</b>		
Current assets		
Cash	182 710	181 950
Short-term investment, 1% interest	25 000	
Accounts receivable	1 539 205	1 154 379
Research tax credits receivable	94 927	61 198
Inventories	1 054 556	813 642
Prepaid expenses	56 432	62 673
	<b>2 952 830</b>	<b>2 273 842</b>
Property and equipment	3 622 443	3 881 552
Intangible assets	604 221	553 833
Other assets	379 499	588 118
	<b>7 558 993</b>	<b>7 297 345</b>
<b>LIABILITIES</b>		
Current liabilities		
Accounts payable and accrued liabilities		
Company controlled by an officer and director	18 136	73 494
Other	1 020 621	996 945
Instalments on long-term debt	270 937	841 917
	<b>1 309 694</b>	<b>1 912 356</b>
<b>LONG-TERM DEBT</b> (Note 3)	<b>3 442 591</b>	<b>2 868 780</b>
<b>LIABILITY COMPONENT OF CONVERTIBLE DEBENTURES</b> (Note 4)	<b>5 521 236</b>	<b>5 156 430</b>
	<b>10 273 521</b>	<b>9 937 566</b>
<b>SHAREHOLDERS' EQUITY (DEFICIENCY)</b>		
Capital stock and warrants (Note 5)	11 565 810	10 996 829
Contributed surplus	472 270	345 387
Deficit	(14 752 608)	(13 982 437)
	<b>(2 714 528)</b>	<b>(2 640 221)</b>
	<b>7 558 993</b>	<b>7 297 345</b>

# Neptune Technologies & Bioresources inc.

## Notes to Interim Financial Statements

August 31, 2005 (unaudited)

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

These interim consolidated financial statements as at November 30, 2005 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, 2005. These interim consolidated financial statements should be read in conjunction with the audited annual consolidated financial statements and notes thereto in the Company's 2005 annual report.

### **2 - RELATED PARTY TRANSACTIONS**

The Company entered into an agreement with a shareholder (a company controlled by an officer and director), 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 \$13,472 (\$11,795 in 2004). As at November 30, 2005, the balance due to this shareholder amounts to \$18,136 (\$73,494 as at May 31, 2005). 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, 2005 (unaudited)

#### 3 - LONG TERM DEBT

	November 30, 2005	May 31 2005
	\$	\$
Mortgage loan, \$1,200,000 par value, secured by processing and laboratory equipment having an amortized cost of \$2,837,038 in 2005, prime rate plus 6.25% (13.5% as at November 30, 2005 and 12.5% as at May 31, 2005), payable in monthly capital instalments of \$20,000, with moratorium until September 2006, maturing in May 2011	1 120 000	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% (7.5% as at November 30, 2005 and 7% as at May 31, 2005), payable in 60 monthly capital instalments of \$16,333 with moratorium until September 2006, maturing in September 2011	954 978	951 726
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% (8.5% as at November 30, 2005 and 8% as at May 31, 2005), payable in 60 monthly capital instalments of \$25,000 with moratorium until September 2006, maturing in September 2011	1 432 822	1 420 810
9% unsecured loan, payable in monthly blended instalments of \$993, maturing in September 2005		3 900
Unsecured loan, without interest, matured	70 000	70 000
Obligations under capital leases, interest rates varying from 0.00% to 15.46%, payable in monthly instalments of \$7,235, maturing at different dates until August 2010	135 728	124 261
	<b>3 713 528</b>	3 710 697
Instalments due within one year	<b>270 937</b>	841 917
	<b>3 442 591</b>	2 868 780

#### 4 - LIABILITY COMPONENT OF CONVERTIBLE DEBENTURES

	November 30, 2005	May 31 2005
	\$	\$
Unsecured convertible debenture (a face amount of \$2,195,342, bearing interest at 15%)	2 414 878	2 250 226
Secured convertible debenture (a face amount of \$1,261,780, bearing interest at 15% compounded annually)	1 793 858	1 668 704
Unsecured convertible debenture (a face amount of \$1,000,000, bearing interest at 15%)	1 312 500	1 237 500
	<b>5 521 236</b>	5 156 430

## Neptune Technologies & Bioresources inc.

### Notes to Interim Financial Statements

August 31, 2005 (unaudited)

#### 5 - CAPITAL STOCK AND WARRANTS

	November 30, 2005	May 31 2005
	\$	\$
<b>Issued and fully paid</b>		
27,870,727 common shares (25,594,805 common shares as at May 31, 2005)	11 453 310	10 656 737
750,000 series "H" warrants	75 000	302 592
250,000 series "I" warrants	37 500	37 500
	112 500	340 092
	11 565 810	10 996 829

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

	Number of shares	Consideration \$
<b>Common shares</b>		
Balance as at August 31, 2005	25 594 805	10 656 737
Issued upon series "H" warrants	2 275 922	796 573
Balance as at November 30, 2005	27 870 727	11 453 310

During the period, 2,275,922 series "H" warrants were exercised with a compensation in cash of 568,981\$ and a non monetary compensation of 227,592\$ representing the attributed value at the emission of the series "H" warrants, June 9 2004.

#### 6 - STOCK-BASED COMPENSATION PLAN

Activities within the plan are detailed as follows:

	November 30, 2005		May 31, 2005	
	Number of options	Weighted average exercise price \$	Number of options	Weighted average exercise price \$
Options outstanding, beginning of period	3 986 000	0,25	2 280 000	0,88
Awarded	70 000	0,57	1 129 000	0,25
Cancelled	(81 000)	0,25	(483 000)	0,80
Exercise price amendment				
Former price			(1 920 000)	0,85
New price			1 920 000	0,25
Options outstanding, end of period	3 975 000	0,26	2 926 000	0,25
Exercisable options, end of period	1 017 500	0,25	1 430 000	0,25

## Neptune Technologies & Bioressources inc.

### Notes to Interim Financial Statements

August 31, 2005 (unaudited)

#### 6 - STOCK-BASED COMPENSATION PLAN (continued)

					November 30, 2005
Options outstanding			Exercisable options		
Weighted average exercise price	Weighted remaining contractual life outstanding	Number of options outstanding as at 2005-08-31	Number of options exercisable as at 2005-08-31	Weighted average exercise price	
\$					\$
0,25	3,82	3 905 000	1 017 500	0,25	
0,5	4,88	50 000			
0,75	4,99	20 000			
0,25	4,07	3 975 000	1 017 500	0,25	

On October 17, 2005, the Company granted 50,000 stock options to employees at an exercise price of \$0,50 per share. The fair value of each option granted has been estimated according to the Black-Scholes option pricing model using the following assumptions:

- i) Fair value of the common shares at \$0.50
- ii) Risk-free interest rate of 3.60%
- iii) Estimated life of four years
- iv) Expected volatility of 119%

The fair value of the options granted is \$0.3912 per option.

On November 25, 2005, the Company granted 20,000 stock options to employees at an exercise price of \$0.75 per share. The fair value of each option granted has been estimated according to the Black-Scholes option pricing model using the following assumptions:

- i) Fair value of the common shares at \$0.87
- ii) Risk-free interest rate of 3.77%
- iii) Estimated life of four years
- iv) Expected volatility of 119%

The fair value of the options granted is \$0.6955 per option.

During the period ended November 30, 2005, an amount of \$47,210 (\$25,764 in 2004) representing employees' vested interests during the period was expensed as compensation. An amount of \$5,828 (\$7,319 in 2004) representing non-employees' vested interests during the period was expensed.