



Third Quarterly Report  
Ending February 28, 2006

# Neptune Technologies & Bioresources inc.

## Interim Consolidated Statement of Earnings

(unaudited)

	Three months ended		Nine months ended	
	February 28,		February 28,	
	2006	2005	2006	2005
	\$	\$	\$	\$
<b>Sales</b>	<b>1 822 548</b>	1 292 461	5 089 341	3 606 291
Cost of sales and operating expenses (before amortization)	<b>1 544 575</b>	1 139 038	4 223 504	3 165 002
Research expenses	<b>76 606</b>	37 042	204 981	115 685
Financial expenses	<b>282 273</b>	247 963	879 173	749 938
Amortization	<b>250 260</b>	244 135	786 622	730 830
	<b>2 153 714</b>	1 668 178	6 094 280	4 761 455
Loss before other revenue (expenses)	<b>(331 166)</b>	(375 717)	(1 004 939)	(1 155 164)
Interest income	<b>280</b>	260	692	665
Exchange loss	<b>(30 793)</b>	30 844	(127 603)	(80 987)
Gain on debt settlement	<b>1 400 000</b>		1 400 000	
<b>Net loss</b>	<b>1 038 321</b>	(344 613)	268 150	(1 235 486)
Basic and diluted profit (loss) per share	<b>0,032</b>	(0,013)	0,009	(0,049)
Weighted average number of shares outstanding	<b>32 419 020</b>	25 594 805	28 889 419	25 418 016

## Neptune Technologies & Bioresources inc.

### Interim Consolidated Statement of Deficit Interim Consolidated Contributed Surplus

(unaudited)

### Interim Consolidated Statement of Deficit (unaudited)

	Three months ended		Nine months ended	
	February 28,		February 28,	
	2006	2005	2006	2005
	\$	\$	\$	\$
Balance, beginning of year	(14 752 608)	(13 105 725)	(13 982 437)	(12 194 383)
Net profit (net loss)	1 038 321	(344 613)	268 150	(1 235 486)
Share issue expenses	(421 457)		(421 457)	(20 469)
Balance, end of year	(14 135 744)	(13 450 338)	(14 135 744)	(13 450 338)

### Interim Consolidated Contributed Surplus (unaudited)

	Three months ended		Nine months ended	
	February 28,		February 28,	
	2006	2005	2006	2005
	\$	\$	\$	\$
Balance, beginning of year	472 270	309 491	345 387	187 754
Expired warrants				62 049
Stock-based compensation - employees	64 378		179 498	52 369
Stock-based compensation - non-employees	19 754		31 517	7 319
Balance, end of year	556 402	309 491	556 402	309 491

# Neptune Technologies & Bioresources inc.

## Interim Consolidated Statement of Cash Flows

(unaudited)

	Three months ended		Nine months ended	
	February 28,		February 28,	
	2006	2005	2006	2005
	\$	\$	\$	\$
<b>OPERATING ACTIVITIES</b>				
Net Income (net loss)	1 038 321	(344 613)	268 150	(1 235 486)
Non-cash items				
Property and equipment	250 260	244 135	786 622	730 830
Amortization of deferred financing costs	35 737	6 280	50 735	18 839
Financial expenses	119 495	157 145	499 565	477 669
Stock-based compensation - employees	64 378		179 498	59 688
Stock-based compensation - non-employees	19 754		31 517	
Gain on debt settlement	(400 000)		(400 000)	
Changes in working capital items	(86 546)	(238 572)	(771 456)	(448 918)
Cash flows from operating activities	1 041 399	(175 625)	644 631	(397 378)
<b>INVESTING ACTIVITIES</b>				
Immobilisations of property and equipment	(11 451)	(8 305)	(16 544)	(10 320)
Intangible assets	(17 738)	(22 858)	(70 739)	(52 202)
Other assets			(10 977)	
Cash flows from investing activities	(29 189)	(31 163)	(98 260)	(62 522)
<b>FINANCING ACTIVITIES</b>				
Bank loan	500 000		500 000	
Repayment of long-term debt	(19 120)	(29 844)	(96 502)	(97 923)
Debenture settlement	(1 350 137)		(1 350 137)	
Issue of capital stock	698 719		1 267 700	370 839
Issue of warrants				340 092
Share issue expenses	(421 457)		(421 457)	(15 280)
Cash flows from financing activities	(591 995)	(29 844)	(100 396)	597 728
<b>Increase (decrease) in cash and cash equivalents</b>	<b>420 215</b>	<b>(236 632)</b>	<b>445 975</b>	<b>137 828</b>
Cash and cash equivalents, beginning of period	207 710	327 820	181 950	(46 640)
Cash and cash equivalents, end of period	627 925	91 188	627 925	91 188

# Neptune Technologies & Bioresources inc.

## Interim Consolidated Balance Sheets

	Unaudited February 28, 2006	Audited 31 mai 2005
	\$	\$
<b>ASSETS</b>		
Current assets		
Cash	193 775	181 950
Short-term investment, interest 1% to 3.775%	434 150	
Accounts receivable	1 770 012	1 154 379
Research tax credits receivable	115 628	61 198
Inventories	1 104 007	813 642
Prepaid expenses	67 835	62 673
	<b>3 685 407</b>	<b>2 273 842</b>
Property and equipment	<b>3 487 243</b>	3 881 552
Intangible assets	<b>620 653</b>	553 833
Other assets	<b>241 461</b>	588 118
	<b>8 034 764</b>	<b>7 297 345</b>
<b>LIABILITIES</b>		
Current liabilities		
Bank loan (note 3)	<b>500 000</b>	
Accounts payable and accrued liabilities		
Company controlled by an officer and director	<b>35 588</b>	73 494
Other	<b>940 798</b>	996 945
Instalments on long-term debt	<b>550 071</b>	841 917
	<b>2 026 457</b>	1 912 356
<b>LONG-TERM DEBT</b> (Note 4)	<b>3 153 420</b>	2 868 780
<b>LIABILITY COMPONENT OF CONVERTIBLE DEBENTURES</b> (Note 5)		5 156 430
	<b>5 179 877</b>	9 937 566
<b>SHAREHOLDERS' EQUITY (DEFICIENCY)</b>		
Capital stock and warrants (Note 6)	<b>16 434 229</b>	10 996 829
Contributed surplus	<b>556 402</b>	345 387
Deficit	<b>(14 135 744)</b>	(13 982 437)
	<b>2 854 887</b>	(2 640 221)
	<b>8 034 764</b>	7 297 345

# Neptune Technologies & Bioresources inc.

## Notes to Interim Financial Statements

February 28, 2006 (unaudited)

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

These interim consolidated financial statements as at February 28, 2006 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 \$17,452 (\$11,844 in 2005). As at February 28, 2006, the balance due to this shareholder amounts to \$35,588 (\$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.

### **3 - BANK LOAN**

The Company has at its disposal an authorized operating line of credit line of \$500,000, and another credit facility for \$500,000 at a prime rate plus 2.10% (7.35% at February 28). The bank loan is secured by first lien commercial mortgage on universality of creditors, taxes credits, accounts receivables, and inventories up to the amount of \$1,000,000. The bank loan is renewable November 15, 2006.

# Neptune Technologies & Bioresources inc.

## Notes to Interim Financial Statements

February 28, 2006 (unaudited)

### 4 - LONG TERM DEBT

	February 28, 2006	May 31, 2005
	\$	\$
Mortgage loan, \$1,200,000 par value, secured by processing and laboratory equipment having an amortized cost of \$2,744,821 in 2006, prime rate plus 6.25% (14.00% as at February 28, 2006 and 12.5% as at May 31, 2005), payable in monthly capital instalments of \$26,650, with moratorium until August 2006, maturing in March 2012	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 5.00% (11.75% as at February, 2006 and 7% as at May 31, 2005), payable in 60 monthly capital instalments of \$16,333 with moratorium until August 2006, maturing in August 2011	957 641	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 3.00% (9.75% as at February 28, 2006 and 8% as at May 31, 2005), payable in 60 monthly capital instalments of \$25,000 with moratorium until August 2006, maturing in August 2011	1 439 241	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	116 609	124 261
	<b>3 703 491</b>	<b>3 710 697</b>
Instalments due within one year	550 071	841 917
	<b>3 153 420</b>	<b>2 868 780</b>

### 5 - LIABILITY COMPONENT OF CONVERTIBLE DEBENTURES

	February 28, 2006	May 31, 2005
	\$	\$
Unsecured convertible debenture (a face amount of \$2,195,342, bearing interest at 15%)		2 250 226
Secured convertible debenture (a face amount of \$1,261,780, bearing interest at 15% compounded annually)		1 668 704
Unsecured convertible debenture (a face amount of \$1,000,000, bearing interest at 15%)		1 237 500
		<b>5 156 430</b>

# Neptune Technologies & Bioresources inc.

## Notes to Interim Financial Statements

February 28, 2006 (unaudited)

### 6 - CAPITAL STOCK AND WARRANTS

	February 28, 2006	May 31, 2005
	\$	\$
<b>Issued and fully paid</b>		
32,938,789 common shares (25,594,805 common shares as at May 31, 2005)	16 325 479	10 656 737
750 000 series "H" warrants	75 000	302 592
225 000 series "I" warrants	33 750	37 500
	108 750	340 092
	16 434 229	10 996 829

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

	Number of shares	Consideration \$
<b>Commun shares</b>		
Balance as at November 30, 2005	27 870 727	11 453 310
Issued upon debentures conversion	3 800 000	3 881 512
Issued for cash	600 000	600 000
Issued in consideration of a dept settlement	288 187	288 188
Issued upon stock options exercised	354 875	92 469
Issued upon series "I" warrants	25 000	10 000
Balance as at February 28, 2006	32 938 789	16 325 479

During the period, 25,000 series "I" warrants were exercised with a compensation in cash of 6,250\$ and a compensation of 25,000 common shares representing the attributed value at the emission of the series "I" warrants, July 13 2004.

During the period, 354,875 stocks options were exercised with a compensation in cash of \$92,469 and a compensation of 354 875 common shares.

# Neptune Technologies & Bioresources inc.

## Notes to Interim Financial Statements

February 28, 2006 (unaudited)

### 7 - STOCK-BASED COMPENSATION PLAN

Activities within the plan are detailed as follows:

	February 28, 2006		31 mai 2005	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
		\$		\$
Options outstanding, beginning of period	3 975 000	0,26	2 280 000	0,88
Awarded	696 000	1,04	1 129 000	0,25
Exercise	(354 875)	0,26		
Cancelled	(371 250)	0,32	(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	3 944 875	0,39	2 926 000	0,25
Exercisable options, end of period	1 040 875	0,25	1 430 000	0,25

	Options outstanding			Exercisable options	
	Weighted average exercise price	Weighted remaining contractual life outstanding	Number of options outstanding as at 28-02-2006	Number of options exercisable as at 28-02-2006	Weighted average exercise price
	\$				\$
	0,25	2,98	3 233 875	1 040 875	0,25
	0,75	4,74	20 000		
	0,80	4,77	25 000		
	1,00	2,81	216 000		
	1,15	4,89	450 000		
	0,39	3,75	3 944 875	1 040 875	0,25

On December 8, 2005, the Company granted 30,000 stock options to non-employees at an exercise price of \$0,80 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 \$0.88
- ii) Risk-free interest rate of 3.89%
- iii) Estimated life of five years
- iv) Expected volatility of 119%

The fair value of the options granted is \$0.7409 per option.

# Neptune Technologies & Bioresources inc.

## Notes to Interim Financial Statements

February 28, 2006 (unaudited)

### **7 - STOCK-BASED COMPENSATION PLAN (continued)**

On December 20, 2005, the Company granted 216,000 stock options to non-employees at an exercise price of \$1.15 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 \$1.15
- ii) Risk-free interest rate of 3.84%
- iii) Estimated life of three years
- iv) Expected volatility of 118%

The fair value of the options granted is \$0.8172 per option.

On January 31, 2006, the Company granted 450,000 stock options to non-employees at an exercise price of \$1.00 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 \$0.94
- ii) Risk-free interest rate of 3.86%
- iii) Estimated life of four years
- iv) Expected volatility of 118%

The fair value of the options granted is \$0.7286 per option.

During the period ended February 28, 2006, an amount of \$64,378 (nil in 2005) representing employees' vested interests during the period was expensed as compensation. An amount of \$19,754 (nil in 2005) representing non-employees' vested interests during the period was expensed.

### **8 - FINANCIAL INSTRUMENTS**

The Company had concluded a foreign exchange contract to protect its future cash flows in US currencies. At the end of the contract, the Company must sell an amount of 100,000 US dollars for a counterpart in Canadian currency, at an exchange rate of 1.15, maturing in May 31, 2006.