PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

Condensed Consolidated Interim Financial Statements of
(Unaudited)

NEPTUNE WELLNESS SOLUTIONS INC.

For the three and six-month periods ended September 30, 2022 and 2021

NEPTUNE WELLNESS SOLUTIONS INC.

Condensed Consolidated Interim Financial Statements
(Unaudited)
For the three and six-month periods ended September 30, 2022 and 2021

Financial Statements

NEPTUNE WELLNESS SOLUTIONS INC.

Condensed Consolidated Interim Balance Sheets
(Unaudited) (in U.S. dollars)

	Notes	As at September 30, 2022	As at March 31, 2022
Assets			
Current assets:			
Cash and cash equivalents		$1,394,603	$8,726,341
Short-term investment		17,489	19,255
Trade and other receivables		4,946,406	7,599,584
Prepaid expenses		2,876,115	3,983,427
Inventories	4	15,808,436	17,059,406
Assets held for sale	2(d)	3,203,557	—
Total current assets		28,246,606	37,388,013
Property, plant and equipment	5	2,145,027	21,448,123
Operating lease right-of-use assets		2,474,370	2,295,263
Intangible assets	6	17,792,596	21,655,035
Goodwill	6	14,354,340	22,168,288
Total assets		$65,012,939	$104,954,722
Liabilities and Equity			
Current liabilities:			
Trade and other payables		$22,960,348	$22,700,849
Current portion of operating lease liabilities		585,536	641,698
Deferred revenues		130,464	285,004
Provisions	7	5,860,704	1,118,613
Liability related to warrants	8	2,820,025	5,570,530
Total current liabilities		32,357,077	30,316,694
Operating lease liabilities		2,343,311	2,063,421
Loans and borrowings	9	14,692,156	11,648,320
Other liability	12(c)	24,000	88,688
Total liabilities		49,416,544	44,117,123
Shareholders' Equity:			
Share capital - without par value (8,516,894 shares issued and outstanding as of September 30, 2022; 5,560,829 shares issued and outstanding as of March 31, 2022)	10(a)	321,769,905	317,051,125
Warrants	10(f)	6,079,890	6,079,890
Additional paid-in capital		56,306,211	55,980,367
Accumulated other comprehensive loss		(14,307,804)	(7,814,163)
Deficit		(358,363,505)	(323,181,697)
Total equity attributable to equity holders of the Company		11,484,697	48,115,522
Non-controlling interest	11	4,111,698	12,722,077
Total shareholders' equity		15,596,395	60,837,599
Commitments and contingencies	15		
Subsequent events	2(d), 7, 18		
Total liabilities and shareholders' equity		$65,012,939	$104,954,722

See accompanying notes to the condensed consolidated interim financial statements.

On behalf of the Board:

/s/ Julie Philips
Julie Philips
Chair of the Board

/s/ Michael Cammarata
Michael Cammarata
President and CEO

NEPTUNE WELLNESS SOLUTIONS INC.

Condensed Consolidated Interim Statements of Loss and Comprehensive Loss
(Unaudited) (in U.S. dollars)
For the three and six-month periods ended September 30, 2022 and 2021

		Three-month periods ended		Six-month periods ended	
	Notes	September 30, 2022	September 30, 2021	September 30, 2022	September 30, 2021
Revenue from sales net of excise taxes of $1,600 and $643,476 (2021 - $240,080 and $380,699)		$11,755,056	$12,309,755	$27,723,154	$22,131,395
Royalty revenues		218,731	188,593	502,920	424,660
Other revenues		13,055	20,283	32,996	41,085
Total revenues	16	11,986,842	12,518,631	28,259,070	22,597,140
Cost of sales other than impairment loss on inventories, net of subsidies of nil and nil (2021 - $269,210 and $931,705)		(10,878,974)	(10,681,881)	(26,965,552)	(23,082,924)
Impairment loss on inventories	4	—	(3,009,098)	(3,079,997)	(3,009,098)
Total Cost of sales		(10,878,974)	(13,690,979)	(30,045,549)	(26,092,022)
Gross profit (loss)		1,107,868	(1,172,348)	(1,786,479)	(3,494,882)
Research and development expenses		(207,598)	(91,110)	(422,285)	(350,776)
Selling, general and administrative expenses, net of subsidies of nil and nil (2021 - $36,306 and $100,605)	12(c)	(15,907,638)	(15,447,682)	(26,461,372)	(31,462,316)
Impairment loss related to property, plant and equipment	5	—	(1,884,970)	—	(2,414,702)
Impairment loss on assets held for sale	2(d)	(14,530,458)	—	(15,346,119)	—
Impairment loss related to goodwill	6	(7,570,471)	—	(7,570,471)	—
Impairment loss related to tradenames	6	(2,593,529)	—	(2,593,529)	—
Net gain on sale of property, plant and equipment		—	—	85,002	—
Loss from operating activities		(39,701,826)	(18,596,110)	(54,095,253)	(37,722,676)
Finance income		16	4	1,440	7,343
Finance costs		(379,007)	(458,786)	(1,295,529)	(816,902)
Loss on issuance of derivatives	8	—	—	(2,126,955)	—
Foreign exchange gains		4,613,545	1,501,869	6,020,830	214,482
Change in revaluation of marketable securities		—	(77,712)	—	(89,924)
Gain (loss) on revaluation of derivatives	8, 14	(1,807,890)	5,528,509	7,715,810	7,461,839
		2,426,664	6,493,884	10,315,596	6,776,838
Loss before income taxes		(37,275,162)	(12,102,226)	(43,779,657)	(30,945,838)
Income tax (recovery) expense		(12,530)	154	(12,530)	(11,944)
Net loss		(37,287,692)	(12,102,072)	(43,792,187)	(30,957,782)
Other comprehensive loss					
Net change in unrealized foreign currency losses on translation of net investments in foreign operations (tax effect of nil for all periods)		(3,702,162)	(2,693,068)	(6,493,641)	(716,506)
Total other comprehensive loss		(3,702,162)	(2,693,068)	(6,493,641)	(716,506)
Total comprehensive loss		$(40,989,854)	$(14,795,140)	$(50,285,828)	$(31,674,288)
Net loss attributable to:					
Equity holders of the Company		$(30,897,458)	$(11,112,863)	$(35,181,808)	$(28,020,491)
Non-controlling interest	11	(6,390,234)	(989,209)	(8,610,379)	(2,937,291)
Net loss		$(37,287,692)	$(12,102,072)	$(43,792,187)	$(30,957,782)
Total comprehensive loss attributable to:					
Equity holders of the Company		$(34,599,620)	$(13,805,931)	$(41,675,449)	$(28,736,997)
Non-controlling interest		(6,390,234)	(989,209)	(8,610,379)	(2,937,291)
Total comprehensive loss		$(40,989,854)	$(14,795,140)	$(50,285,828)	$(31,674,288)
Basic and diluted loss per share attributable to:					
Equity holders of the Company		$(3.94)	$(2.33)	$(5.03)	$(5.89)
Non-controlling interest		$(0.81)	$(0.21)	$(1.23)	$(0.62)
Total loss per share	13	$(4.75)	$(2.54)	$(6.26)	$(6.51)
Basic and diluted weighted average number of common shares		7,842,731	4,776,381	6,996,916	4,760,620

See accompanying notes to the condensed consolidated interim financial statements.

NEPTUNE WELLNESS SOLUTIONS INC.

Condensed Consolidated Interim Statements of Changes in Equity
(Unaudited) (in U.S. dollars)
For the three and six-month periods ended September 30, 2022 and 2021

		Share Capital				Accumulated other comprehensive income (loss)				
	Notes	Number	Dollars	Warrants	Additional paid-in capital	Cumulative translation account	Deficit	Equity attributable to equity holders of the Company	Equity attributable to non-controlling interest	Total
Balance as at March 31, 2022		5,560,829	$317,051,125	$6,079,890	$55,980,367	$(7,814,163)	$(323,181,697)	$48,115,522	$12,722,077	$60,837,599
Net loss for the period		—	—	—	—	—	(35,181,808)	(35,181,808)	(8,610,379)	(43,792,187)
Other comprehensive loss for the period		—	—	—	—	(6,493,641)	—	(6,493,641)	—	(6,493,641)
Total comprehensive loss for the period		—	—	—	—	(6,493,641)	(35,181,808)	(41,675,449)	(8,610,379)	(50,285,828)
Transaction with equity holders recorded directly in equity										
Contributions by and distribution to equity holders										
Share-based payment	12	—	—	—	1,826,983	—	—	1,826,983	—	1,826,983
Common shares issued in connection with debt financing	9, 10(g)	409,435	645,921	—	—	—	—	645,921	—	645,921
Warrants exercised	8	384,446	1,769,000	—	—	—	—	1,769,000	—	1,769,000
RSUs released, net of withholding taxes	10(d), 12(b)(ii)	216,658	2,303,859	—	(1,501,139)	—	—	802,720	—	802,720
Direct Offering, net of issuance costs	8	1,945,526	—	—	—	—	—	—	—	—
Total contributions by and distribution to equity holders		2,956,065	4,718,780	–	325,844	—	—	5,044,624	—	5,044,624
Balance as at September 30, 2022		8,516,894	$321,769,905	$6,079,890	$56,306,211	$(14,307,804)	$(358,363,505)	$11,484,697	$4,111,698	$15,596,395

See accompanying notes to the condensed consolidated interim financial statements.

NEPTUNE WELLNESS SOLUTIONS INC.

Condensed Consolidated Interim Statements of Changes in Equity
(Unaudited) (in U.S. dollars)
For the three and six-month periods ended September 30, 2022 and 2021

		Attributable to equity holders of the Company								
		Share Capital				Accumulated other comprehensive income (loss)				
		Number	Dollars	Warrants	Additional paid-in capital	Cumulative translation account	Deficit	Equity attributable to equity holders of the Company	Equity attributable to non-controlling interest	Total
Balance as at June 30, 2022		7,614,434	$318,921,917	$6,079,890	$56,346,589	$(10,605,642)	$(327,466,047)	$43,276,707	$10,501,932	$53,778,639
Net loss for the period		—	—	—	—	—	(30,897,458)	(30,897,458)	(6,390,234)	(37,287,692)
Other comprehensive loss for the period		—	—	—	—	(3,702,162)	—	(3,702,162)	—	(3,702,162)
Total comprehensive loss for the period		—	—	—	—	(3,702,162)	(30,897,458)	(34,599,620)	(6,390,234)	(40,989,854)
Transaction with equity holders recorded directly in equity										
Contributions by and distribution to equity holders										
Share-based payment	12	—	—	—	639,883	—	—	639,883	—	639,883
Common shares issued in connection with debt financing	9, 10(g)	409,435	645,921	—	—	—	—	645,921	—	645,921
Warrants exercised	8	384,446	1,769,000	—	—	—	—	1,769,000	—	1,769,000
RSUs released, net of withholding taxes	10(d), 12(b)(ii)	108,579	433,067	—	(680,261)	—	—	(247,194)	—	(247,194)
Total contributions by and distribution to equity holders		902,460	2,847,988	–	(40,378)	—	—	2,807,610	—	2,807,610
Balance as at September 30, 2022		8,516,894	$321,769,905	$6,079,890	$56,306,211	$(14,307,804)	$(358,363,505)	$11,484,697	$4,111,698	$15,596,395

See accompanying notes to the condensed consolidated interim financial statements.

NEPTUNE WELLNESS SOLUTIONS INC.

Condensed Consolidated Interim Statements of Changes in Equity (Continued)
(Unaudited) (in U.S. dollars)
For the three and six-month periods ended September 30, 2022 and 2021

		Share Capital				Accumulated other comprehensive income (loss)				
	Notes	Number	Dollars	Warrants	Additional paid-in capital	Cumulative translation account	Deficit	Equity attributable to equity holders of the Company	Equity attributable to non-controlling interest	Total
Balance as at March 31, 2021		4,732,090	$306,618,482	$5,900,973	$59,625,356	$(8,567,106)	$(248,209,952)	$115,367,753	$22,177,556	$137,545,309
Net loss for the period		—	—	—	—	—	(28,020,491)	(28,020,491)	(2,937,291)	(30,957,782)
Other comprehensive loss for the period		—	—	—	—	(716,506)	—	(716,506)	—	(716,506)
Total comprehensive loss for the period		—	—	—	—	(716,506)	(28,020,491)	(28,736,997)	(2,937,291)	(31,674,288)
Transaction with equity holders recorded directly in equity										
Contributions by and distribution to equity holders										
Share-based payment	12	—	—	—	5,237,918	—	—	5,237,918	—	5,237,918
Warrants in exchange of services rendered by non-employees	10(f)(i)	—	—	153,650	—	—	—	153,650	—	153,650
RSUs released, net of withholding taxes	10(d), 12(b)(ii)	47,051	5,568,679	—	(6,546,796)	—	—	(978,117)	—	(978,117)
Total contributions by and distribution to equity holders		47,051	5,568,679	153,650	(1,308,878)	—	—	4,413,451	—	4,413,451
Balance as at September 30, 2021		4,779,141	$312,187,161	$6,054,623	$58,316,478	$(9,283,612)	$(276,230,443)	$91,044,207	$19,240,265	$110,284,472

See accompanying notes to the condensed consolidated interim financial statements.

NEPTUNE WELLNESS SOLUTIONS INC.

Condensed Consolidated Interim Statements of Changes in Equity (Continued)
(Unaudited) (in U.S. dollars)
For the three and six-month periods ended September 30, 2022 and 2021

		Attributable to equity holders of the Company								
		Share Capital				Accumulated other comprehensive income				
		Number	Dollars	Warrants	Additional paid-in capital	Cumulative translation account	Deficit	Equity attributable to equity holders of the Company	Equity attributable to non-controlling interest	Total
Balance as at June 30, 2021		4,773,750	$310,780,282	$5,993,658	$57,565,128	$(6,590,544)	$(265,117,580)	$102,630,944	$20,229,474	$122,860,418
Net loss for the period		—	—	—	—	—	(11,112,863)	(11,112,863)	(989,209)	(12,102,072)
Other comprehensive loss for the period		—	—	—	—	(2,693,068)	—	(2,693,068)	—	(2,693,068)
Total comprehensive loss for the period		—	—	—	—	(2,693,068)	(11,112,863)	(13,805,931)	(989,209)	(14,795,140)
Transaction with equity holders recorded directly in equity										
Contributions by and distribution to equity holders										
Share-based payment	12	—	—	—	2,157,649	—	—	2,157,649	—	2,157,649
Warrants in exchange of services rendered by non-employees	10(f)(i)	—	—	60,965	—	—	—	60,965	—	60,965
RSUs released, net of withholding taxes	10(d), 12(b)(ii)	5,391	1,406,879	—	(1,406,299)	—	—	580	—	580
Total contributions by and distribution to equity holders		5,391	1,406,879	60,965	751,350	—	—	2,219,194	—	2,219,194
Balance as at September 30, 2021		4,779,141	$312,187,161	$6,054,623	$58,316,478	$(9,283,612)	$(276,230,443)	$91,044,207	$19,240,265	$110,284,472

See accompanying notes to the condensed consolidated interim financial statements.

NEPTUNE WELLNESS SOLUTIONS INC.

Condensed Consolidated Interim Statements of Cash Flows
(Unaudited) (in U.S. dollars)
For the three and six-month periods ended September 30, 2022 and 2021

	Notes	Six-month periods ended September 30, 2022	September 30, 2021
Cash flows from operating activities:			
Net loss for the period		$(43,792,187)	$(30,957,782)
Adjustments:			
Depreciation of property, plant and equipment		462,193	1,411,846
Non-cash lease expense		314,900	432,742
Amortization of intangible assets		952,057	1,775,889
Impairment loss on goodwill	6	7,570,471	—
Impairment loss on tradenames	6	2,593,529	—
Share-based payment	12	1,826,983	5,237,918
Impairment loss on inventories	4	3,079,997	3,009,098
Expected credit losses		133,685	1,987,134
Non-employee compensation related to warrants	10(f)(i)	—	153,650
Loss on issuance of derivatives		2,126,955	—
Net finance expense		1,294,089	809,559
Unrealized foreign exchange (gain) loss		(6,020,830)	486,852
Change in revaluation of marketable securities		—	89,924
Interest received		1,440	7,167
Interest paid		(44,784)	(391,022)
Revaluation of derivatives		(7,715,810)	(7,461,839)
Impairment loss on property, plant and equipment	5	—	2,414,702
Impairment loss on assets held for sale	5	15,346,119	—
Payment of lease liabilities		(227,107)	(145,138)
Income tax expense		12,530	11,944
Net gains from sale of property, plant and equipment		(85,002)	—
Changes in operating assets and liabilities		8,087,556	(12,426,342)
Income taxes paid		(360)	(11,944)
Net cash used in operating activities		(14,083,576)	(33,565,642)
Cash flows from investing activities:			
Acquisition of property, plant and equipment		(601,743)	(524,844)
Acquisition of intangible assets		—	(436,018)
Net cash used in investing activities:		(601,743)	(960,862)
Cash flows from financing activities:			
Increase in loans and borrowings, net of financing fees		3,250,000	—
Proceeds from sale of property, plant and equipment		85,002	—
Withholding taxes paid pursuant to the settlement of non-treasury RSUs		(260,034)	(978,117)
Gross proceeds from the issuance of shares and warrants through a Direct Offering	8	5,000,002	—
Issuance of shares and warrants costs	8	(465,211)	—
Proceeds from exercise of options and pre-funded warrants	8	65	—
Net cash provided by (used in) financing activities:		7,609,824	(978,117)
Foreign exchange loss on cash and cash equivalents		(256,243)	(13,054)
Net decrease in cash and cash equivalents		(7,331,738)	(35,517,675)
Cash and cash equivalents, beginning of period		8,726,341	59,836,889
Cash and cash equivalents as at September 30, 2022 and 2021		$1,394,603	$24,319,214
Cash and cash equivalents is comprised of:			
Cash		$1,394,603	$24,319,214

See accompanying notes to the condensed consolidated interim financial statements.

NEPTUNE WELLNESS SOLUTIONS INC.

Condensed Consolidated Interim Statements of Cash Flows (continued)
(Unaudited) (in U.S. dollars)
For the three and six-month periods ended September 30, 2022 and 2021

Supplemental cash flow disclosure:

Changes in operating assets and liabilities:

	Six-month periods ended	
	September 30, 2022	September 30, 2021
Trade and other receivables	$2,519,493	$(2,749,349)
Prepaid expenses	1,107,312	(465,022)
Inventories	(1,829,027)	(1,188,778)
Trade and other payables	1,766,915	(7,067,094)
Deferred revenues	(154,540)	452,621
Provisions	4,742,091	(1,256,033)
Other liabilities	(64,688)	(152,687)
Changes in operating assets and liabilities	$8,087,556	$(12,426,342)

1. Reporting entity:

Neptune Wellness Solutions Inc. (the "Company" or "Neptune") is incorporated under the Business Corporations Act (Québec) (formerly Part 1A of the Companies Act (Québec)). The Company is domiciled in Canada and its registered office is located at 100-545 Promenade du Centropolis, Laval, Québec. The condensed consolidated interim financial statements of the Company comprise the Company and its subsidiaries, Biodroga Nutraceuticals Inc. ("Biodroga"), SugarLeaf Labs, Inc. ("SugarLeaf"), 9354-7537 Québec Inc., Neptune Holding USA, Inc., Neptune Health & Wellness Innovation, Inc., Neptune Forest, Inc., Neptune Care, Inc. (formerly known as Neptune Ocean, Inc.), Neptune Growth Ventures, Inc., 9418-1252 Québec Inc., Neptune Wellness Brands Canada, Inc. and Sprout Foods, Inc. (“Sprout”).

Neptune is a diversified and fully integrated health and wellness company. Through its flagship consumer-facing brands, Neptune Wellness, Forest Remedies™, Biodroga, MaxSimil®, Sprout®, Nosh® and NurturMe®, Neptune is redefining health and wellness by building a broad portfolio of natural, plant-based, sustainable and purpose-driven lifestyle brands and consumer packaged goods products in key health and wellness markets, including nutraceuticals, organic baby food, personal care and home care.

On June 8, 2022, Neptune announced the launch of a new Consumer Packaged Goods ("CPG") focused strategic plan to reduce costs, improve the Company's path to profitability and enhance current shareholder value. This plan builds on the Company's initial strategic review that took place in fall of 2021 and focuses on two primary actions: (1) the divestiture of the Company's Canadian cannabis business and (2) a realignment of focus and operational resources toward increasing the value of Neptune's CPG business.

Sale of Cannabis Assets

On October 17, 2022, Neptune announced an agreement to sell substantially all of its Cannabis assets (including, but not limited to, the production facility located in Sherbrooke, Québec and certain legal entities including various related brand names and trademarks, including MoodRing and PanHash) to PurCann Pharma Inc. These assets were reported as Assets Held For Sale ("AHFS") as of September 30, 2022. On November 9, 2022 the sale to PurCann Pharma Inc. was completed.

Share consolidation and delisting from TSX

On June 9, 2022, Neptune announced the completion of the Company's proposed consolidation of its common shares (the "Common Shares") on the basis of one (1) post-consolidation Common Share for every thirty-five (35) pre-consolidation Common Shares (the "Share Consolidation"). The post-consolidation Common Shares commenced trading on the NASDAQ and the TSX at the market open on June 13, 2022. The Share Consolidation reduced the number of Common Shares issued and outstanding from approximately 198 million Common Shares to approximately 5.7 million Common Shares as at June 13, 2022. These consolidated financial statements have been retroactively adjusted to reflect the Share Consolidation. As a result, the number of common shares, options, deferred share units ("DSUs"), restricted share units ("RSUs"), restricted shares and warrants, issuance and exercise prices of options, DSUs, RSUs, restricted shares and warrants, loss per share reflect the Share Consolidation.

On July 29, 2022, Neptune announced that it has applied and received approval for a voluntary delisting of its common shares from the Toronto Stock Exchange ("TSX"). The delisting from the TSX will not affect the Company's listing on the Nasdaq Capital Market ("Nasdaq"). Neptune's common shares were delisted from the TSX at the close of trading on August 15, 2022.

Going concern

These condensed consolidated interim financial statements have been prepared on a going concern basis, which presumes that the Company will continue realizing its assets and discharging its liabilities in the normal course of business for the foreseeable future. The Company has incurred significant operating losses and negative cash flows from operations since inception. To date, the Company has financed its operations primarily through the public offering and private placement of Common Shares, units consisting of Common Shares and warrants, and convertible debt, the proceeds from research grants and research tax credits, and the exercises of warrants, rights and options. For the six-month period ended September 30, 2022, the Company incurred a net loss of $43.8 million and negative cash flows from operations of $14.1 million, and had an accumulated deficit of $358.4 million as of September 30, 2022. For the year ended March 31, 2022, the Company incurred a net loss of $84.4 million and negative cash flows from operations of $54.3 million. Furthermore, as at September 30, 2022, the Company’s current liabilities and expected level of expenses for the next twelve months exceed cash on hand of $1.4 million and its total current liabilities exceed its total current assets. Accordingly, the Company is required to actively manage its liquidity and expenses and payments of payables are not being made as the amounts become due for certain suppliers.

The Company currently has no committed sources of financing available other than from transactions completed after period-end from the sale of its Canadian cannabis business (see note 2(d)) and the registered direct offering (see note 18).

As of the date these financial statements are authorized for issuance, the cash balance is expected to be sufficient to operate the business for only the next two to three months under the current business plan. The Company requires funding in the very near term in order to continue its operations. If the Company is unable to obtain funding in the near-term, it may have to cease operations and liquidate its assets.

These conditions cast substantial doubt about the Company's ability to continue as a going concern.

Going forward, the Company will seek additional financing in various forms. To achieve the objectives of its business plan, Neptune plans to raise the necessary funds through additional securities offerings and the establishment of strategic alliances. Other than the secured promissory notes issued by Sprout, the Company has limited debt and assets available for financing include accounts receivable and inventories. The ability of the Company to complete the needed financing and ultimately achieve profitable operations is dependent on a number of factors outside of the Company's control. The Company's business plan is dependent upon, among other things, its ability to achieve and maintain profitability, continue to obtain adequate ongoing debt and/or equity financing to finance operations within and beyond the next twelve months.

While the Company has been successful in obtaining financing from public issuances and private placements, there is no certainty as to future financings.

These consolidated financial statements do not include any adjustments to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the going concern basis not be valid. These adjustments could be material.

2. Basis of preparation:

(a) Adoption of U.S. GAAP:

As at March 31, 2022, the Company retroactively adopted United States generally accepted accounting principles ("US GAAP"). The consolidated financial statements of the Company have been prepared in accordance with US GAAP for all periods presented. Comparative figures, which were previously prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board, have been adjusted as required to be compliant with the Company's accounting policies under US GAAP.

(b) Functional and reporting currency:

Effective March 31, 2022, the Company changed its reporting currency from Canadian dollars ("CAD") to U.S. dollars ("USD"). This change in reporting currency has been applied retroactively such that all amounts in the consolidated financial statements of the Company and the accompanying notes thereto are expressed in U.S. dollars. References to "$" and "USD" are U.S dollars and references to "CAD $" and "CAD" are to Canadian dollars. For comparative purposes, historical consolidated financial statements were recast in U.S. dollars by translating (i) assets and liabilities at the closing exchange rate in effect at the end of the respective period, (ii) revenues, expenses and cash flows at the average exchange rate in effect for the respective period and (iii) equity transactions at historical exchange rates. Translation gains and losses are included as part of the cumulative foreign currency translation adjustment, which is reported as a component of shareholders' equity under accumulated other comprehensive loss.

The assets and liabilities of foreign operations with a functional currency other than the U.S. dollar are translated into U.S. dollars at the exchange rate in effect at the balance sheet date. Revenue and expenses are translated at the monthly average exchange rates for the period. Differences arising from the exchange rate changes are recorded within foreign currency translation adjustments, a component of other comprehensive income (loss).

Transactions in foreign currencies are translated to the respective functional currencies of the Company's subsidiaries at the average exchange rates for the period. The monetary items denominated in currencies other than the functional currency of a subsidiary are translated at the exchange rates prevailing at the balance sheet date. Non-monetary items denominated in currencies other than the functional currency are translated at historical rates. Gains and losses resulting from re-measurement are recorded in the Company's consolidated statement of loss as foreign exchange gain (loss).

The functional currency of the Company is the Canadian dollars.

(c) Use of estimates:

The preparation of the condensed consolidated interim financial statements in accordance with U.S. GAAP requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from the estimates made by management.

Estimates are based on 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.

Estimates include the following:

- Estimating the write down of inventory.
- Estimating expected credit losses for receivables.
- Estimating the recoverable amount of non-financial assets, to determine and measure impairment losses on goodwill, intangibles, and property, plant and equipment.
- Estimating the lease term of contracts with extension options and termination options.
- Estimating the revenue from contracts with customers subject to variable consideration.
- Estimating the fair value of bonus, options and warrants that are based on market and non-market conditions (note 12).
- Estimating the fair value of the identifiable assets acquired, liabilities assumed, and consideration transferred of the acquired business, including the related contingent consideration and call option.
- Estimating the litigation provision as it depends upon the outcome of proceedings (note 7) and
- Estimating fair value less costs to sell off assets held for sale (note 2 (d)).

(d) Assets held for sale:

On June 8, 2022, the Company announced a planned divestiture of the Canadian cannabis business and that the Company would focus on winding up its cannabis operations pending one or more sales transactions. Following this announcement, the Canadian cannabis disposal group assets met the criteria to be classified as held for sale. As at September 30, 2022, non-current assets related to the Canadian cannabis business are presented under assets held for sale on Neptune's balance sheet. Comparative balance sheet amounts have not been reclassified. The disposal group has been measured at fair value less cost to sell and impaired to reflect the asset sale and purchase agreement (the "ASPA") signed with a third-party on October 16, 2022 for approximately $3,790,340 ($5,150,000 CAD), with expected cost to sell the Canadian cannabis disposal group asset in the amount of $586,783, for net assets held for sale of $3,203,557, resulting in impairment losses of $14,530,458 and $15,346,119 respectively for the three and six-month periods ended September 30, 2022. The transaction closed on November 9, 2022.

The following table presents information related to the major classes of assets and liabilities that were classified as held for sale

	September 30, 2022
Land	$165,878
Building and building components	16,064,102
Laboratory and plant equipment	2,816,144
Intangible assets	90,335
Costs related to sale of assets	(586,783)
Impairment loss	(15,346,119)
Assets held for sale	$3,203,557

3. Significant accounting policies:

These unaudited Consolidated Interim Financial Statements have been prepared in accordance U.S. GAAP and on a basis consistent with those accounting principles followed by the Company and disclosed in note 2 of its Annual Consolidated Financial Statements for the year ended March 31, 2022, (except as disclosed in note 3(c) to these financial statements) and should be read in conjunction with and Notes thereto.

(a) Basis of consolidation:

These consolidated financial statements include the accounts of the Company and its subsidiaries in which the Company has a controlling financial interest. All intercompany balances and transactions have been eliminated from the Company's consolidated financial statements. On February 10, 2021, Neptune acquired a 50.1% interest in Sprout Foods, Inc. ("Sprout" or "Sprout Foods"). The accounts of the subsidiary are included in the consolidated financial statements from that date.

(b) New standards and interpretations not yet adopted:

Accounting pronouncements not yet adopted

In October 2021, the FASB issued ASU 2021-08, *Accounting for Contract Assets and Contract Liabilities from Contracts with Customers*, which amends ASC Topic 805, Business Combinations, ASU 2021-18 improves the accounting for acquired revenue contracts with customers in a business combination by addressing diversity in practice and inconsistency related to the (1) recognition of an acquired contract liability and (2) payment terms and their direct effect on subsequent revenue recognized by the acquirer. ASU 2021-08 is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2022. Management has not yet evaluated the impact of this ASU on the Company's consolidated financial statements and the Company does not intend to adopt ASU 2021-18 for periods prior to periods beginning after December 15, 2022.

(c) Assets held for sale:

The Company classifies long-lived assets or disposal groups to be sold as held for sale in the period in which all of the following criteria are met: management, having the authority to approve the action, commits to a plan to sell the asset or disposal group; the asset or disposal group is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets or disposal groups; an active program to locate a buyer and other actions required to complete the plan to sell the asset or disposal group have been initiated; the sale of the asset or disposal group is probable, and transfer of the asset or disposal group is expected to qualify for recognition as a completed sale within one year, except if events or circumstances beyond our control extend the period of time required to sell the asset or disposal group beyond one year; the asset or disposal group is subject to an asset sale and purchase agreement (see notes 2(d)); and actions required to complete the plan indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn.

Assets and liabilities directly associated with assets held for sale are measured at the lower of carrying amount and fair value less costs to sell immediately prior to their classification. Any loss resulting from this measurement is recognized in the period in which the held-for-sale criteria are met. Conversely, gains are not recognized on the sale of a long-lived asset or disposal group until the date of sale.

Assets classified as held for sale, and the assets and liabilities included within a disposal group classified as held for sale are presented separately on the face of the balance sheet. Non-current assets that are classified as held for sale are not depreciated.

4. Inventories:

	September 30, 2022	March 31, 2022
Raw materials	$5,428,373	$7,920,190
Work in progress	414,356	1,016,916
Finished goods	9,708,583	7,974,690
Supplies and spare parts	257,124	147,610
	$15,808,436	$17,059,406

During the three and six-month periods ended September 30, 2022, the Company recorded impairment losses of nil and $3,079,997 respectively (2021 – Impairment losses of $3,009,098 and $3,009,098, respectively) as a result of inventory measurements to their net realizable value. The impairment loss during the six-month period ended September 30, 2022 are related Cannabis inventories that were impaired because they were subsequently sold at lower than costs or expected to be sold at net realizable values that are lower than costs.

5. Property, plant and equipment:

As at September 30, 2022, property, plant and equipment related to the Canadian cannabis asset group were classified as assets held for sale on the balance sheet (refer to note 2(d)). As indicated in note 2(d), the Cannabis related assets were written down, resulting in impairment losses of $14,530,458 and $15,346,119 respectively for the three and six-month periods ended September 30, 2022.

Impairment losses for the three and six-month periods ended September 30, 2021 were $1,884,970 and $2,414,702 respectively. The Company impaired certain equipment of the Canadian cannabis long-lived assets to nil resulting in an impairment charge of $905,028 and $1,434,760 for the three and six-months ended September 30, 2021 respectively. In addition, the Company impaired the long-lived assets of the SugarLeaf reporting unit as they were no longer generating economic benefits. The fair value of these long-lived assets was established to be nil and as such an impairment charge of $979,942 was recorded during the six-month period ended September 30, 2021..

6. Goodwill and intangible assets:

The Company assesses at each reporting date whether there is an indication that an asset group or a reporting unit may be impaired. During the second quarter of 2022, there were changes in the general economic and financial conditions of the markets the Company serves. The Company's Sprout reporting unit was adversely impacted during the second quarter of 2022 by these conditions, which impacted the current period results. Accordingly, management concluded that these factors were indicators of impairment.

As a result, management performed an impairment test for the Sprout reporting unit, for which it revised its assumptions on projected earnings and cash flows growth, as well as its assumptions on discount rates used to apply to the forecasted cash flows, using its best estimate of the conditions existing at September 30, 2022. Although management used its best estimate to assess the potential impact of the changes in the general economic conditions on the Company's business, management exercised significant judgment to estimate forecasted cash flows and discount rate, using assumptions which are subject to significant uncertainties. Accordingly, differences in estimates could affect whether a reporting unit is impaired and the dollar amount of that impairment, which could be material. The Company compared the carrying amount of the reporting unit to the fair value. The fair value of the Sprout reporting unit was determined to be lower than the carrying value and a $7,570,471 goodwill impairment expense was recorded in the quarter ended September 30, 2022.

The fair value of the reporting unit was estimated using a discounted cash flow model with a WACC post-tax discount rate of 11.0% and a market multiples valuation approach. The discount rate represents the risk adjusted WACC of the reporting unit, based on publicly available information and that of comparable companies operating in similar industries. Determination of the WACC requires separate analysis of the cost of equity and debt, and considers a risk premium based on an assessment of risks related to the projected cash flows of the reporting unit.

Cash flows were projected based on past experience, actual operating results and the three-year business plan including a terminal growth rate of 3.5%.

The most significant assumptions used to estimate the fair values using a discounted cash flow model included the forecasted revenue, gross margins, net working capital investment, terminal value as well as the discount rate. These significant assumptions are classified as Level 3 in the fair value hierarchy, signifying that they are not based on observable market data. A decrease in the projected cash flow or an increase in discount rate could have resulted in a higher impairment charge. Should these projections not be realized, or the discount rate needs to be increased, an impairment loss may be needed in future periods. Due to the impairment losses recorded during the second quarter of 2023, there is no headroom between the fair value of the reporting unit and its carrying value and therefore, changes in assumptions in future periods may result in additional impairment charges.

The aggregate amount of goodwill is allocated to each reporting unit as follows:

	September 30, 2022	March 31, 2022
Biodroga	$2,382,374	$2,625,851
Sprout	11,971,966	19,542,437
	$14,354,340	$22,168,288

The Company also identified a trigger of impairment related to its intangible assets and recorded an impairment charge of $2,593,529 for Sprout trademarks. The fair value was determined using a relief from royalty discounted cash flow model.

7. Provisions

(a) During the year ended March 31, 2019, the Company received a judgment from the Superior Court of Québec (the "Court") in respect of certain royalty payments alleged to be owed and owing to a former chief executive officer of the Company (the "Former CEO") pursuant to the terms of an agreement entered into on February 23, 2001 between Neptune and the Former CEO (the "Royalty Agreement"). The Company appealed the judgment which was dismissed by the Court of Appeal of Québec in February 2021. Under the terms of the Royalty Agreement and as maintained by the court, annual royalties of 1% of the sales and other revenue made by the Company on a consolidated basis are payable by the Company to the Former CEO biannually, but only to the extent that the cost of the royalty would not cause the Company to have a loss before interest, taxes and amortization (in which case, the payments would be deferred to the following fiscal year).

As of September 30, 2022, a provision of $532,614 (March 31, 2022 - $362,809) has been recorded by the Company. During the three and six-month periods ended September 30, 2022, the Company increased the provision by $90,625 and $216,829 respectively, recorded foreign currency translation adjustments of $(35,993) and $(47,024) respectively, and made no payments to the Former CEO in relation to this provision. During the three and six-month periods ended September 30, 2021, the Company increased the provision by $399,005 and $515,472 respectively, recorded foreign currency translation adjustments of $(21,962) and $9,811 respectively, and made payments totaling $354,287 and $1,771,506 respectively to the Former CEO in relation to this provision.

Effective as of September 20, 2022, the Company notified the Former CEO that it was exercising its legal rights to terminate the Royalty Agreement. In response to such termination, the Former CEO is seeking a declaratory judgment that the Company did not have the legal right to terminate the Royalty Agreement.

(b) In September 2020, Neptune submitted a claim and demand for arbitration against Peter M. Galloway and PMGSL Holdings, LLC (collectively "PMGSL") in accordance with the SugarLeaf Asset Purchase Agreement ("APA") dated May 9, 2019 between Neptune, PMGSL, Peter M. Galloway and Neptune Holding USA, Inc. Separately, PMGSL submitted a claim and demand for arbitration against Neptune. The Neptune claims and PMGSL claims have been consolidated into a single arbitration and each are related to the purchase by Neptune of substantially all of the assets of the predecessor entities of PMGSL Holdings, LLC. Neptune is claiming, among other things, breach of contract and negligent misrepresentation by PMGSL in connection with the APA and is seeking, among other things, equitable restitution and any and all damages recoverable under law. PMGSL is claiming, among other things, breach of contract by Neptune and is seeking, among other things, payment of certain compensation contemplated by the APA. A merit hearing in the arbitration took place in April 2022 and August 1, 2022. While Neptune believes there is no merit to the claims brought by PMGSL, a judgment in favor of PMGSL may have a material adverse effect on our business and Neptune intends to continue vigorously defending itself. Based on currently available information, a provision of $600,000 has been recognized for this case as at September 30, 2022 ($600,000 as at March 31, 2022).

(c) A supplier of cannabis initiated a lawsuit against the Company's subsidiary, 9354-7537 Quebec Inc., ("9354") for breach of a Wholesale Cannabis Supply Agreement (the "Supply Agreement") for the purchase of cannabis trim. The purchased trim was rejected by 9354 due to quality concerns. The supplier refused to refund the purchase price and ultimately sued 9354 for breach of the Supply Agreement. The matter proceeded to trial in November 2021, and on March 23, 2022, an arbitrator entered an arbitration award against 9354 for the full purchase price of the trim. With fees and costs, the final arbitrator's award entered against 9354 was $1,127,024, plus applicable interest. During the quarter ended June 30, 2022, the parties engaged into settlement negotiations which resulted in the execution of a settlement agreement dated July 13, 2022. As at June 30, 2022, the payable was revised to the settlement amount of $543,774 which resulted in the recognition of a settlement gain of $583,430 under Selling, general and administrative expenses for the three-month period ended June 30, 2022. During the three-month period ended September 30, 2022, the Company made a payment of $328,439 to the supplier, and recorded foreign currency translation adjustments of $(15,814). As at September 30, 2022, the balance of this payable was $199,521 ($1,127,024 as at March 31, 2022) and it was paid on October 12, 2022. This provision was included in trade and other payables as at March 31, 2022 and September 30, 2022.

(d) On March 16, 2021, a purported shareholder class action was filed in United States District Court for the Eastern District of New York against the Company and certain of its current and former officers alleging violations of Section 10(b) and 20(a) of the Securities Exchange Act of 1934, with respect to the Company's acquisition of SugarLeaf Labs, Inc. On October 21, 2022, the Company announced that it had agreed to settle and resolve the purported shareholder class action for a gross payment to the class of between $4 and $4.25 million, with the exact amount being within the Company's control and dependent on the type of consideration used. The settlement is subject to court approval and certification by the court of the class. An installment of $500,000 will be made seven days after the approval date, with two additional payments to be made 30 days and 60 days after the first payment. The rest is payable either in cash ($2,500,000) or in shares ($2,750,000) at Neptune's election. As of September 30, 2022, a provision and an expense within selling, general administration of $4,000,000 (March 31, 2022 - nil) has been recorded by the Company.

(e) As at September 30, 2022, the Company has various additional other provisions for legal fees obligations for an aggregate amount of $728,090 (March 31, 2022 – $155,804).

8. Liability related to warrants:

The Company has issued common shares, pre-funded warrants and warrants as part of its financing arrangements which are exercisable for a variable number of shares. Common shares and pre-funded warrants are classified as equity. Warrants are classified as liabilities rather than equity.

On June 23, 2022, Neptune issued a total of 645,526 pre-funded warrants (“Pre-Funded Warrants”), along with 1,300,000 common shares of the Company, as part of a registered direct offering ("June 2022 Direct Offering"). Each Pre-Funded Warrant was exercisable for one Common Share. The common shares and the Pre-Funded Warrants were sold together with 1,945,526 Series C Warrants (the "Series C Warrants"), and 1,945,526 Series D Warrants (the "Series D Warrants") and collectively, the "June 2022 Common Warrants". Each of the June 2022 Common Warrant is exercisable for one common share. Each of the common share and Pre-Funded Warrants and the accompanying June 2022 Common Warrants were sold together at a combined offering price of $2.57, for aggregate gross proceeds of $5,000,002 before deducting fees and other estimated offering expenses. The Pre-Funded Warrants are funded in full at closing except for a nominal exercise price of $0.0001 and are exercisable commencing on the Closing Date and will terminate when such Pre-Funded Warrants are exercised in full. The Series C Warrants and the Series D Warrants have an exercise price of $2.32 per share and can be exercised for a period of 5 years and 2 years respectively from the date of issuance. On October 6, 2022, the Company agreed to extend the termination date of 972,763 Series C Warrants by two years.

Proceeds of the June 2022 Direct Offering were allocated between common shares and warrants first by allocating proceeds to the warrants classified as a liability based on their fair value and then allocating the residual to the equity instruments, which includes the Pre-Funded Warrants. The fair value of the liability-classified warrants was determined using the Black-Scholes model, resulting in an initial warrant liability of $4,046,836 for the Series C Warrants and $3,080,121 for the Series D Warrants. Because the fair value of the liability classified warrant exceeded the total proceeds, no consideration was allocated to the Common Shares and Pre-Funded Warrants and a loss $2,126,955 was immediately recognized in the net loss of the period as there were no additional rights or privileges identified. The Company is in need of financing to be able to continue its activities as described in note 1. The Pre-Funded Warrants were exercised in full on June 24, 2022 for gross proceeds of $65. Total issue costs related to this private placement of $465,211, were recorded under finance costs.

During the month of August 2022, a total of 201,207 Series C Warrants and 972,763 Series D Warrants were exercised at $2.32 each in cashless transactions, which resulted in an aggregate total of 384,446 shares being issued for an aggregate value of $1,769,000.

The fair value of the Series C Warrants and Series D Warrants liability was determined using the Black-Scholes model. Warrants are revalued each period-end at fair value and accounted for in the Company's profit and loss statement under “gain on revaluation of derivatives”.

Changes in the value of the liability related to the warrants for the six-month period ended September 30, 2022 and 2021 were as follows:

	Warrants	Amount
Outstanding as at March 31, 2021	497,355	$10,462,137
Revaluation		(7,231,224)
Movements in exchange rates		39,349
Outstanding as at September 30, 2021	497,355	3,270,262
Outstanding as at March 31, 2022	1,925,929	$5,570,530
Warrants issued during the period	3,891,052	7,126,957
Warrants exercised during the period	(1,173,970)	(1,769,000)
Revaluation gain		(7,715,810)
Movements in exchange rates		(392,652)
Outstanding as at September 30, 2022	4,643,011	2,820,025

The following table provides the relevant information on the outstanding warrants as at September 30, 2022:

Reference	Date of issuance	Number of warrants outstanding	Number of warrants exercisable	Exercise price	Expiry date
2020 Warrants	October 22, 2020	300,926	300,926	$78.75	October 22, 2025
2021 Warrants	February 19, 2021	196,429	196,429	$78.75	August 19, 2026
Series A Warrants	March 14, 2022	714,287	714,287	$11.20	September 14, 2027
Series B Warrants	March 14, 2022	714,287	714,287	$11.20	March 14, 2028
Series C Warrants	June 23, 2022	771,556	771,556	$2.32	June 23, 2027
Series C Warrants	June 23, 2022	972,763	972,763	$2.32	June 23, 2029
Series D Warrants	June 23, 2022	972,763	972,763	$2.32	June 24, 2024
		4,643,011	4,643,011	$13.24	

The derivative warrant liabilities are measured at fair value at each reporting period and the reconciliation of changes in fair value is presented in the following tables:

	2020 Warrants		2021 Warrants	
	September 30, 2022	September 30, 2021	September 30, 2022	September 30, 2021
Balance - beginning of period	$309,769	$6,174,137	$306,704	$4,288,000
Change in fair value	(279,056)	(4,279,268)	(276,527)	(2,951,956)
Translation effect	(11,655)	23,614	(11,525)	15,735
Balance - end of period	$19,058	$1,918,483	$18,652	$1,351,779

	Series A Warrants		Series B Warrants	
	September 30, 2022	September 30, 2021	September 30, 2022	September 30, 2021
Balance - beginning of period	$3,270,816	$—	$1,683,241	$—
Change in fair value	(2,728,178)	—	(1,571,237)	—
Translation effect	(136,418)	—	(59,975)	—
Balance - end of period	$406,220	$—	$52,029	$—

	Series C Warrants		Series D Warrants	
	September 30, 2022	September 30, 2021	September 30, 2022	September 30, 2021
Balance - beginning of period	$—	$—	$—	$—
Warrants issued during the period	4,046,836	—	3,080,121	—
Warrants exercised during the period	(365,224)	—	(1,403,776)	—
Change in fair value	(1,881,806)	—	(979,006)	—
Translation effect	(121,760)	—	(51,319)	—
Balance - end of period	$1,678,046	$—	$646,020	$—

The fair value of the derivative warrant liabilities was estimated using the Black-Scholes option pricing model and based on the following assumptions:

	2020 Warrants		2021 Warrants	
	September 30, 2022	September 30, 2021	September 30, 2022	September 30, 2021
Share price	$1.52	$21.00	$1.52	$21.00
Exercise price	$78.75	$78.75	$78.75	$78.75
Dividend yield	—	—	—	—
Risk-free interest	4.18%	0.77%	4.10%	0.96%
Remaining contractual life (years)	3.06	4.07	3.88	4.89
Expected volatility	99.0%	81.6%	93.1%	76.1%

	Series A Warrants		Series B Warrants	
	September 30, 2022	September 30, 2021	September 30, 2022	September 30, 2021
Share price	$1.52	$—	$1.52	$—
Exercise price	$11.20	$—	$11.20	$—
Dividend yield	—	—	—	—
Risk-free interest	3.98%	—	3.97%	—
Remaining contractual life (years)	4.96	—	0.96	—
Expected volatility	90.8%	—	117.1%	—

	Series C Warrants		Series D Warrants	
	September 30, 2022	June 23, 2022 (Grant date)	September 30, 2022	June 23, 2022 (Grant date)
Share price	$1.52	$2.90	$1.52	$2.90
Exercise price	$2.32	$2.32	$2.32	$2.32
Dividend yield	—	—	—	—
Risk-free interest	4.01%	3.38%	4.11%	3.21%
Remaining contractual life (years)	4.73	5.00	1.73	2.00
Expected volatility	90.1%	84.0%	107.7%	88.7%

The Company measured its derivative warrant liabilities at fair value on a recurring basis. These financial liabilities were measured using level 3 inputs. The Company uses the historical volatility of the underlying share to establish the expected volatility of the warrants. An increase or decrease in this assumption to estimate the fair values using the Black-Scholes option pricing model would result in an increase or a decrease in the fair value of the instruments, respectively.

9. Loans and borrowings:

	September 30, 2022	March 31, 2022
Loans and borrowings:		
Promissory note originally of $10,000,000 and increased to $13,000,000 on July 13, 2022, issued by Sprout, guaranteed by the Company and secured through a first-ranking mortgage on all movable current and future, corporeal and incorporeal, and tangible and intangible assets of Sprout. The outstanding principal balance bears interest at the rate of 10.0% per annum, increasing by 1.00% every three months commencing September 30, 2022. Interest is accrued and added to the principal amount of the loan and is presented net of borrowing costs. The principal and accrued interest may also be converted, in whole or in part, at any time before February 1, 2024, upon the mutual consent of Sprout, the Company and MSEC, into common shares of the Company.	$14,481,024	$11,648,320
Promissory note of $250,000 issued by Sprout on August 26, 2022, guaranteed by the Company and secured by the issued and outstanding capital stock of Sprout. The outstanding principal balance bears interest at the rate of 10.0% per annum, increasing by 1.00% every three months commencing September 30, 2022. Interest is accrued and added to the principal amount of the loan and is presented net of borrowing costs. The principal is payable on February 1, 2024 in cash, or, upon the prior consent of the holder, fully or partially in common shares of Neptune at the Company's discretion.	$211,132	$—
	14,692,156	11,648,320
Less current portion of loans and borrowings	—	—
Loans and borrowings	$14,692,156	$11,648,320

On July 13, 2022, Sprout entered into an amendment of each of its existing Secured Promissory Notes. In connection with this amendment, investment funds managed by Morgan Stanley Expansion Capital ("Morgan Stanley" or "MSEC") agreed to immediately commit an additional $3 million in Secured Promissory Notes to Sprout. The maturity date of the note facility of February 1, 2024 is consistent with the maturity date of the existing Secured Promissory Notes with MSEC and Neptune. The $13.0 million of amended Secured Promissory Notes have a 10% interest rate per annum, increasing by 1% per annum every three months during the term of the Secured Promissory Notes. The interest will be compounded and added to the principal amount on a quarterly basis. MSEC was issued 372,670 common shares of Neptune, of a value of $570,185, in connection with this commitment.

On August 26, 2022, Sprout entered into an additional $250,000 Secured Promissory Note, which is on the same terms as the Secured Promissory Note entered into with MSEC discussed above. Neptune issued 36,765 common shares for a value of $75,736 in connection with this Secured Promissory Note in connection with this commitment.

During the three and six-month periods ended September 30, 2022, interest expense of $224,632 and $474,632 respectively were recognized on loans and borrowings (2021 - $252,055 and $504,833). There are no covenants to be met for the loans and borrowings outstanding as at September 30, 2022 and March 31, 2022.

10. Capital and other components of equity:

(a) Share capital:

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).

All issued shares are fully paid.

(b) Share options exercised:

During the three and six-month periods ended September 30, 2022 and 2021, Neptune issued no common shares of the Company upon exercise of stock options.

(c) DSUs released:

During the three and six-month periods ended September 30, 2022 and 2021 , Neptune issued no common shares of the Company for the release of DSUs to former and current members of the Board of Directors.

(d) RSUs released:

During the six-month period ended September 30, 2022, Neptune issued 216,658 common shares of the Company for RSUs released to the CEO as part of his employment agreement at a weighted average price of $11.96 per common share. The Company, with the consent of the CEO delayed issuance of an additional 139,145 RSUs.

During the six-month period ended September 30, 2021, Neptune issued 47,051 common shares of the Company to the CEO as part of his employment agreement at a weighted average price of $155.05 per common share. Withholding taxes of $978,117 were paid by the Company pursuant to the issuance of these RSUs resulting in the Company not issuing an additional 24,511 RSUs.

(e) Restricted shares:

During the three and six-month periods ended September 30, 2022 and 2021, Neptune issued no restricted common shares of the Company to employees.

(f) Warrants:

On June 23, 2022, as part of the June 2022 Direct Offering described under note 8, Neptune issued a total of 645,526 pre-funded warrants (“Pre-Funded Warrants”), with each Pre-Funded Warrant exercisable for one Common Share. The Pre-Funded Warrants were funded in full at closing except for a nominal exercise price of $0.001 and were exercisable commencing on the Closing Date, and were to terminate when such Pre-Funded Warrants would be exercised in full. The Pre-funded warrants were fully exercised on June 24, 2022 for $65.

Changes in the value of equity related to the warrants were as follows:

	September 30, 2022		September 30, 2021	
	Weighted average exercise price	Number of warrants	Weighted average exercise price	Number of warrants
Warrants outstanding at April 1, 2022 and 2021	$325.34	176,429	$325.34	176,429
Issued	0.0001	645,526	—	—
Exercised	0.0001	(645,526)	—	—
Warrants outstanding at September 30, 2022 and September 30, 2021	$325.34	176,429	$325.34	176,429
Warrants exercisable at September 30, 2022 and September 30, 2021	$325.34	176,429	$317.00	162,144

Warrants of the Company classified as equity are composed of the following as at September 30, 2022 and March 31, 2022:

			September 30, 2022			March 31, 2022
	Number outstanding	Number exercisable	Amount	Number outstanding	Number exercisable	Amount
Warrants IFF (i)	57,143	57,143	$1,630,210	57,143	57,143	$1,630,210
Warrants AMI (ii)	119,286	119,286	4,449,680	119,286	119,286	4,449,680
	176,429	176,429	$6,079,890	176,429	176,429	$6,079,890

(i) During the year ended March 31, 2020, Neptune granted 57,143 warrants (“Warrants IFF”) with an exercise price of $420.00 expiring on November 7, 2024. The warrants, granted in exchange for services to be rendered by non-employees, vest proportionally to the services rendered. No expense was recognized during the three and six-month periods ended September 30, 2022 (2021 - $60,965 and $153,650 respectively) under the research and development expenses.

(ii) During the year ended March 31, 2020, Neptune granted 119,286 warrants (“Warrants AMI”) with an exercise price of $280.00 with 85,715 expiring on October 3, 2024 and 33,572 expiring on February 5, 2025. The warrants, granted in exchange for services to be rendered by non-employees, vest proportionally to the services rendered. The warrants fully vested in fiscal year ended March 31, 2021 and as such no expense was recognized in relation to those instruments since then.

(g) Common shares issued in connection with debt financing:

On July 13, 2022, Neptune issued 372,670 common shares for a value of $570,185 in connection with the amendment of the Secured Promissory Notes that were issued by Sprout for the payment of borrowing costs. In connection with this amendment, investment funds managed by MSEC have provided an additional $3 million in Secured Promissory Notes to Sprout.

On September 9, 2022, Neptune issued 36,765 common shares for a value of $75,736 in connection with a new $250,000 Secured Promissory Note that was issued by Sprout, for the payment of borrowing costs.

11. Non-controlling interest:

The summarized financial information of Sprout is provided below. This information is based on amounts before inter-company eliminations and include the effects of the Company's purchase price adjustments.

Summarized statement of loss and comprehensive loss:

	Three-month period ended		Six-month period ended	
	September 30, 2022	September 30, 2021	September 30, 2022	September 30, 2021
Revenue from contracts with customers	$8,364,475	$7,016,918	$16,522,072	$12,664,345
Cost of sales	(7,610,969)	(7,324,782)	(15,923,258)	(12,894,061)
Selling, general and administrative expenses	(2,472,272)	(930,384)	(6,227,801)	(4,971,533)
Impairment loss on goodwill and intangible assets	(10,164,000)	—	(10,164,000)	—
Finance costs	(923,315)	(744,289)	(1,462,282)	(673,161)
Loss before tax	(12,806,081)	(1,982,537)	(17,255,269)	(5,874,410)
Income tax (expense) recovery	—	154	—	(11,944)
Net loss	(12,806,081)	(1,982,383)	(17,255,269)	(5,886,354)
Total comprehensive loss	(12,806,081)	(1,982,383)	(17,255,269)	(5,886,354)
Loss attributable to the subsidiary's non-controlling interest	(6,390,234)	(989,209)	(8,610,379)	(2,937,291)
Comprehensive loss attributable to the subsidiary's non-controlling interest	$(6,390,234)	$(989,209)	$(8,610,379)	$(2,937,291)

Summarized statement of balance sheets:

	September 30, 2022	March 31, 2022
Current assets	$12,743,435	12,260,375
Non-current assets	28,610,930	39,000,367
Current liabilities	7,292,715	5,991,483
Non-current liabilities	31,409,919	25,362,259
Total equity	2,651,731	19,907,000
Attributable to:		
Equity holders of the Company	$(1,459,967)	$7,184,923
Non-controlling interest	4,111,698	12,722,077

Summarized statement of cash flow:

	Three-month period ended		Six-month period ended	
	September 30, 2022	September 30, 2021	September 30, 2022	September 30, 2021
Cash flow from (used in) operating activities	$(2,490,182)	$(4,324,098)	$(3,925,100)	$(8,073,510)
Cash flow used in investment activities	—	(1,246)	—	(1,246)
Cash flow from (used in) financing activities(1)	3,250,000	4,309,030	3,250,000	7,972,635
Net increase (decrease) in cash and cash equivalents	$759,818	$(16,314)	$(675,100)	$(102,121)

(1) Cash flow from financing activities is partially provided through intercompany advances.

12. Share-based payment:

Under the Company's share-based payment arrangements, stock-based compensation expenses of $639,883 and $1,826,983 were recognized on equity share based awards and expenses of $1,750 and $3,152,578 on liability based awards were recognized in the consolidated statement of loss and comprehensive loss for the three and six-month periods ended September 30, 2022 respectively (2021 - equity expenses of $2,157,649 and $5,237,918 respectively) and nil for liability based awards for the three and six-month periods ended September 30, 2021.

As at September 30, 2022, the Company had the following share-based payment arrangements:

(a) Company stock option plan:

(i) Stock option plan:

The Company has established a stock option plan for directors, officers, employees and consultants. The exercise price of the stock options granted under the plan is not lower than the closing price of the common shares listed on the Nasdaq on the eve of the grant. The terms and conditions for acquiring and exercising options are set by the 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 minimum vesting period of 18 months and a gradual and equal acquisition of vesting rights at least on a quarterly basis. The Company's stock-option plan allows the Company to issue a number of stock options not exceeding 15% of the number of common shares issued and outstanding at the time of any grant. The total number of stock options issuable to a single holder cannot exceed 5% of the Company's total issued and outstanding common shares at the time of the grant, provided that the maximum number of stock options issuable to a single consultant cannot exceed 2% of the Company's total issued and outstanding common shares at the time of the grant.

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

		2022		2021	
	Notes	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options
Options outstanding at April 1st, 2022 and 2021		$37.41	306,321	$65.91	121,208
Granted		1.60	229,715	30.10	218,697
Forfeited/Cancelled		14.21	(55,615)	41.36	(2,897)
Expired		34.54	(1,094)	85.52	(6,429)
Options outstanding at September 30, 2022 and 2021		$22.13	479,327	$43.61	330,579
Options exercisable at September 30, 2022 and 2021		$47.38	154,722	$57.67	95,572

				September 30, 2022
	Options outstanding		Exercisable options	
Exercise price	Weighted remaining contractual life outstanding	Number of options outstanding	Weighted number of options exercisable	Weighted average exercise price
$1.55 - $22.60	4.88	252,574	477	13.97
$22.61 - $27.68	3.87	85,715	57,143	25.64
$27.69 - $40.12	3.81	37,637	14,474	29.71
$40.13 - $55.10	0.17	39,203	39,203	50.41
$55.11 - $154.65	6.66	64,198	43,425	79.42
		479,327	154,722	

The fair value of options granted has been estimated using the Black-Scholes option pricing model and based on the weighted average of certain assumption. The Company granted 114,000 and 114,000 options to non-employees respectively during the three and six-month periods ended September 30, 2022 (nil for the three and six-month periods ended September 30, 2021) resulting in a $128,680 and nil stock-based compensation expense, respectively.

	Three-month periods ended		Six-month periods ended	
Black Sholes assumptions used	September 30, 2022	September 30, 2021	September 30, 2022	September 30, 2021
Share price	$1.55-$1.64	$25.55-$31.53	$1.55-$1.64	$25.55-$31.53
Exercise price	$1.55-$1.64	$25.55-$31.53	$1.55-$1.64	$25.55-$31.53
Dividend yield	—	—	—	—
Risk-free interest	3.10% - 3.60%	0.33% - .80%	3.10% - 3.60%	0.33% - .80%
Expected life (years)	4.0	2.5 - 5.0	4.0	2.5 - 5.0
Expected volatility	94.38% - 106.70%	83.4% - 86.04%	94.38% - 106.70%	83.4% - 86.04%

Stock-based compensation recognized under this plan amounted to $(5,138) and $475,273 respectively for the three and six-month periods ended September 30, 2022 (2021 - $1,035,099 and $1,435,643). Unrecognized compensation cost at September 30, 2022 is $752,005 with a weighted average period remaining of 1.03 years (2021 - $1,340,444 with a weighted average period remaining of 1.52 years).

(ii) Non-market performance options:

On July 8, 2019, the Company granted 100,000 non-market performance options under the Company stock option plan at an exercise price of $4.43 per share to the CEO, expiring on July 8, 2029. These options vest after the attainment of non-market performance conditions within the following ten years. These non-market performance options required the approval of amendments to the stock option plan and therefore the fair value of these options was revalued up to the date of the approval of the amendments (grant date). None of these non-market performance options have vested as at September 30, 2022. These options were not exercisable as at September 30, 2022 and 2021.

No stock-based compensation expense was recognized during the three and six-month periods ended September 30, 2022 (three and six-month periods ended September 30, 2021- $99,845 and $201,164 respectively).

(iii) Market performance options:

On July 8, 2019, the Company granted 157,142 market performance options under the Company stock option plan at an exercise price of $4.43 per share to the CEO, expiring on July 8, 2029. These options vest after the attainment of market performance conditions within the following ten years. Some of these market performance options required the approval of amendments to the stock option plan and therefore the fair value of these options was revaluated up to the date of the approval of the amendments (grant date).

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

		2022		2021	
	Notes	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options
Options outstanding at April 1, 2022 and 2021		$155.05	157,142	$155.05	157,142
Options outstanding at September 30, 2022 and 2021		$155.05	157,142	$155.05	157,142
Options exercisable at September 30, 2022 and 2021		$155.05	21,429	$155.05	21,429

Stock-based compensation recognized under this plan amounted to $601,957 and $1,202,991 respectively for the three and six-month periods ended September 30, 2022. Stock-based compensation expenses of $618,135 and $1,245,396 were recognized for three and six-month periods ended September 30, 2021 respectively. Unrecognized compensation cost at September 30, 2022 is $9,884,878 with a weighted average period remaining of 7.01 years (2021 - $13,181,905 with a weighted average period remaining of 8.01 years).

(b) Deferred Share Units and Restricted Share Units:

The Company has established an equity incentive plan for employees, directors and consultants of the Company. The plan provides for the issuance of restricted share units, performance share units, restricted shares, deferred share units and other share-based awards, subject to restricted conditions as may be determined by the Board of Directors. Upon fulfillment of the restricted conditions, as the case may be, the plan provides for settlement of the awards outstanding through shares.

(i) Deferred Share Units ("DSUs")

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

		2022		2021	
	Notes	Weighted average share price	Number of DSUs	Weighted average share price	Number of DSUs
DSUs outstanding at April 1, 2022 and 2021		$66.45	4,308	$63.00	1,202
DSUs outstanding at September 30, 2022 and 2021		$66.45	4,308	$66.96	1,202
DSUs exercisable at September 30, 2022 and 2021		$66.45	4,308	$66.96	1,108

Of the 4,308 DSUs outstanding as at September 30, 2022 (2021 – 1,202), no DSUs vested upon services to be rendered during a period of twelve months from date of grant (2021 – 1,108). The fair value of the DSUs is determined to be the share price at the date of grant and is recognized as stock-based compensation, through additional paid-in capital, over the vesting period.

Stock-based compensation recognized under this plan amounted to $3,831 and $13,025 respectively for the three and six-month periods ended September 30, 2022. Stock-based compensation expenses of $1,103 and $5,307 were recognized for three and six-month periods ended September 30, 2021 respectively.

(ii) Restricted Share Units (''RSUs'')

During the year ended March 31, 2020, as part of the employment agreement of the CEO, the Company granted RSUs which vest over three years in 36 equal instalments. During the year ended March 31, 2021, Neptune granted additional RSUs to the CEO and to executives of the Company, which vest over periods ranging from 6 months to 3 years. The fair value of the RSUs is determined to be the share price at the date of grant and is recognized as stock-based compensation, through additional paid-in capital, over the vesting period. The fair value of the RSUs granted during the six-month period ended September 30, 2022 was $6.65 per unit.

		2022		2021	
	Notes	Weighted average share price	Number of RSUs	Weighted average share price	Number of RSUs
RSUs outstanding at April 1st, 2022 and 2021		$59.75	25,038	$92.08	95,845
Granted		6.65	349,160	29.54	7,681
Forfeited		59.75	(21)	29.54	(7,681)
Released through the issuance of common shares	10(d)	11.96	(216,658)	155.05	(47,051)
Withheld as payment of withholding taxes	10(d)	11.96	(139,145)	155.05	(24,511)
RSUs outstanding at September 30, 2022 and 2021		$25.44	18,374	$148.49	24,283

Stock-based compensation recognized under this plan amounted to $39,233 and $135,694 respectively for the three and six-month periods ended September 30, 2022. Stock-based compensation expenses of $403,467 and $2,350,408 were recognized for three and six-month periods ended September 30, 2021 respectively. Unrecognized compensation cost at September 30, 2022 is $132,681 with a weighted average remaining life of 1.49 years (2021 - $617,362 unrecognized compensation cost with a weighted average remaining life of 0.68 years).

On November 14, 2021, the Company and its CEO entered into an agreement pursuant to which the CEO's existing employment agreement was amended to waive the Company's obligation to procure directors and officers insurance coverage of up to $15 million for the period covering July 1, 2021 to July 31, 2022. The parties agreed that if the Company had successfully completed a strategic partnership prior to December 31, 2021, the CEO would have been entitled to approximately $6.9 million in cash and would have been granted fully vested options to purchase 8.5 million shares of the Company's common stock. As the strategic partnership was not consummated by December 31, 2021, the CEO was entitled to monthly cash payments for an aggregate value of approximately $6.9 million or the issuance over time of a fixed amount of fully vested RSUs, at the option of the Company.

The balance of the liability accrual to the CEO is $446,700 (including withholding taxes) as at September 30, 2022, in trade and other payables. The revaluation of the liability amounted to a loss of $1,750 and a gain of $3,152,578 respectively for the three and six-month periods ended September 30, 2022 and were recorded into selling, general and administrative expenses (2021 – nil for both periods). During the three and six-month periods ended September 30, 2022, settlements in RSUs were of $235,683 and $1,422,904 respectively. The compensation to be settled in RSUs or if the Company is unable to grant such RSUs, then a combination of cash and vested RSUs with equivalent value, is not reflected in the number of RSUs outstanding above.

(c) Long term cash bonus:

According to the employment agreement with the CEO, a long-term incentive of $15 million is payable if the Company's US market capitalization is at least $1 billion. The Company uses a risk-neutral Monte Carlo simulation to estimate the fair-value of this instrument and recognizes the incentive over the estimated period to reach the market capitalization.

As at September 30, 2022, the liability related to this long-term incentive of $24,000 ($88,688 as at March 31, 2022) is presented in Other liability in the consolidated balance sheets. During the six-month period ended September 30, 2022, a recovery of $64,688 (2021 - a recovery of $152,687) was recorded in connection with the long-term incentive under selling, general and administrative expenses in the consolidated statement of loss. During the three-month period ended September 30, 2022, the Company recorded an expense of $11,069 (2021 - a recovery of $248,532).

13. Loss per share:

The effects of options, DSUs, RSUs and warrants are excluded from the calculation of diluted loss per share for periods in which a company sustains a loss. Accordingly, diluted loss per share was the same as basic loss per share because the Company has incurred losses in each of the periods presented. All outstanding options, DSUs, RSUs and warrants could potentially be dilutive in the future.

14. Fair-value:

The Company uses various methods to estimate the fair value recognized in the consolidated financial statements. The fair value hierarchy reflects the significance of inputs used in determining the fair values:

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices);
- Level 3 – Fair value based on valuation techniques which includes inputs related to the asset or liability that are not based on observable market data (unobservable inputs).

Financial assets and liabilities measured at fair value on a recurring basis are the assets held for sale, the call option granted to Neptune by Sprout's non-controlling interest owners of equity (the "Call Option") and the liability related to warrants.

The following table presents the Company's hierarchy for its financial assets and liabilities measured at fair value on a recurring basis as of September 30, 2022 and March 31, 2022:

		September 30, 2022			
	Notes	Level 1	Level 2	Level 3	Total
Assets					
Assets held for sale	2(d)	$3,203,557	$—	$—	$3,203,557
Total		$3,203,557	$—	$—	$3,203,557
Liabilities					
Liability related to warrants	8	$—	$—	$2,820,025	$2,820,025
Total		$—	$—	$2,820,025	$2,820,025

		March 31, 2022			
	Notes	Level 1	Level 2	Level 3	Total
Liabilities					
Liability related to warrants	8	$—	$—	$5,570,530	$5,570,530
Total		$—	$—	$5,570,530	$5,570,530

On June 8, 2022, the Company announced a planned divestiture of the Canadian cannabis business and the Company will focus on winding up its cannabis operations pending one or more sales transactions. Following this announcement, the disposal group was first measured based on level 3 inputs, at fair value less cost to sell using market prices for comparative assets, and then based on level 1 inputs during the quarter ended September 30, 2022, as per the ASPA (note 2(d)).

On February 10, 2021, Sprout's other equity interest owners granted Neptune a call option (the "Call Option") to purchase the remaining 49.9% outstanding equity interests of Sprout, at any time beginning on January 1, 2023 and ending on December 31, 2023. On September 30, 2022 and March 31, 2022, the Call Option was measured based on level 3 inputs to nil. For the three and six-month periods ended September 30, 2022, the Company recorded gains on re-measurement of nil (2021 - gains of $126,615 and $230,615 respectively).

The liabilities related to warrants were recorded at their fair value using a Black-Scholes pricing model. Warrants are revalued each period end at fair value through profit and loss using level 3 inputs (note 8).

The Company has determined that the carrying values of its short-term financial assets and liabilities approximate their fair values given the short-term nature of these instruments. The carrying value of the short-term investment also approximates its fair value given the short-term maturity of the reinvested funds. For variable rate loans and borrowings, the fair value is considered to approximate the carrying amount.

The fair value of the fixed rate loans and borrowings and long-term payable is determined by discounting future cash flows using a rate that the Company could obtain for loans with similar terms, conditions and maturity dates. The fair value of these instruments approximates the carrying amounts and was measured using level 3 inputs.

15. Commitments and contingencies:

(a) Commitments:

(i) On January 31, 2020, Neptune entered into an exclusive license agreement for a specialty ingredient in combination with fish oil products in nutraceutical products for a period of 8 years. Neptune is required to pay royalties on sales for these products. To maintain exclusivity, Neptune must reach annual minimum volumes of sales for the duration of the agreement or make corresponding minimum royalty payments. The total remaining amount of minimum royalties under the license agreement is $1,269,680. Failure to make the minimum royalty payments will solely result in the license granted thereunder becoming non-exclusive.

(ii) On March 21, 2019, the Company received a judgment from the Court regarding certain previously disclosed claims made by a corporation controlled by the former CEO against the Company in respect to certain royalty payments alleged to be owed and owing to the former CEO pursuant to the terms of an agreement entered into on February 23, 2001 between Neptune and the former CEO (the "Agreement"). The Court declared that under the terms of the agreement, the Company is required to pay royalties of 1% of its revenues in semi-annual instalments, for an unlimited period. Based on currently available information, a provision of $532,614 for royalty payments has been recognized as of September 30, 2022 ($362,809 as at March 31, 2022). Refer to note 7.

(iii) On May 28, 2021, Sprout entered into a license agreement with Moonbug Entertainment Limited ("Moonbug"), pursuant to which it would license certain intellectual property, relating to characters from the children's entertainment property CoComelon, for use on certain Sprout products through December 31, 2023 in exchange for a royalty on net sales. Sprout is required to make minimum guaranteed annual payments to Moonbug of $200,000 over the term of the agreement. The agreement may be extended for an additional three years in exchange for an additional minimum guaranteed annual payment to Moonbug of $200,000 over the extended term of the agreement. Royalties payable under the agreement are set off against minimum guaranteed payments made.

(b) Contingencies:

In the normal course of business, the Company is involved in various claims and legal proceedings, for which the outcomes, inflow or outflow of economic benefits, are uncertain. The most significant of which are ongoing are as follows:

(i) In September 2020, Neptune submitted a claim and demand for arbitration against Peter M. Galloway and PMGSL Holdings, LLC (collectively "PMGSL") in accordance with the SugarLeaf Asset Purchase Agreement ("APA") dated May 9, 2019 between Neptune, PMGSL, Peter M. Galloway and Neptune Holding USA, Inc. Separately, PMGSL submitted a claim and demand for arbitration against Neptune. The Neptune claims and PMGSL claims have been consolidated into a single arbitration and each are related to the purchase by Neptune of substantially all of the assets of the predecessor entities of PMGSL Holdings, LLC. Neptune is claiming, among other things, breach of contract and negligent misrepresentation by PMGSL in connection with the APA and is seeking, among other things, equitable restitution and any and all damages recoverable under law. PMGSL is claiming, among other things, breach of contract by Neptune and is seeking, among other things, payment of certain compensation contemplated by the APA. A merit hearing in the arbitration started in April 2022 with a further week of testimony from August 1-5, 2022. On June 15, 2022, a one-day hearing took place on Neptune's motion to enforce a settlement agreement reached on April 2021 (which was repudiated by PMGSL in June 2021). Following oral argument on July 7, 2022, that motion was denied. While Neptune believes there is no merit to the claims brought by PMGSL, a judgment in favor of PMGSL may have a material adverse effect on our business and Neptune intends to continue vigorously defending itself. Based on currently available information, a provision of $600,000 has been recognized for this case as at September 30, 2022 ($600,000 as at March 31, 2022).

(ii) On February 4, 2021, the United States House of Representatives Subcommittee on Economic and Consumer Policy, Committee on Oversight and Reform (the "Subcommittee"), published a report, "Baby Foods Are Tainted with Dangerous Levels of Arsenic, Lead, Cadmium, and Mercury" (the "Report"), which stated that, with respect to Sprout, "independent testing of Sprout Organic Foods" has confirmed that their baby foods contain concerning levels of toxic heavy metals." The Report further stated that after receiving reports alleging high levels of toxic metals in baby foods, the Subcommittee requested information from Sprout but did not receive a response.

On February 11, 2021, following the acquisition of a 50.1% stake in Sprout by Neptune, the Subcommittee contacted Sprout, reiterating its requests for documents and information about toxic heavy metals in Sprout's baby foods. Sprout provided an initial response to the Subcommittee on February 25, 2021 and is cooperating with the Subcommittee requests.

Further, on February 24, 2021, the Office of the Attorney General of the State of New Mexico ("NMAG") delivered to Sprout a civil investigative demand requesting similar documents and information with regards to the Report and the NMAG's investigation into possible violations of the False Advertising Act of New Mexico. Sprout is responding to the requests of the NMAG.

Since February 2021, several putative consumer class action lawsuits have been brought against Sprout alleging that its products (the "Products") contain unsafe and undisclosed levels of various naturally occurring heavy metals, namely lead, arsenic, cadmium and mercury. Sprout has denied the allegations in these lawsuits and contends that its baby foods are safe and properly labeled. The claims raised in these lawsuits were brought in the wake of the highly publicized Report. All such putative class actions have since been dismissed. No provision has been recorded in the financial statements for these cases.

In addition to the consumer class actions discussed above, Sprout is currently named in one lawsuit filed on June 16, 2021 in California state court alleging some form of personal injury from the ingestion of Sprout's Products, purportedly due to unsafe and undisclosed levels of various naturally occurring heavy metals. This lawsuit generally alleges injuries related to neurological development disorders such as autism spectrum disorder and attention deficit hyperactivity disorder. Sprout denies that its Products contributed to any of these injuries and will defend the case vigorously. In addition, the Office of the Attorney General for the District of Columbia ("OAG") sent a letter to Sprout dated October 1, 2021, similar to letters sent to other baby food manufacturers, alleging potential labeling and marketing misrepresentations and omissions regarding the health and safety of its baby food products, constituting an unlawful trade practice. Sprout has agreed to meet with the OAG and will vigorously defend against the allegations. No provision has been recorded in the financial statements for this matter.

These matters may have a material adverse effect on Sprout's financial condition, or results of operations.

The outcome of these claims and legal proceedings against the Company cannot be determined with certainty and is subject to future resolution, including the uncertainties of litigation.

16. Operating Segments:

The Company measures its performance based on a single segment, which is the consolidated level used in internal management reports that are reviewed by the Company's Chief Operating Decision Maker.

a) Geographical information:

Revenue is attributed to geographical locations based on the origin of customers' location:

	Three-month periods ended		Six-month periods ended	
	September 30, 2022	September 30, 2021	September 30, 2022	September 30, 2021
Canada	$670,557	$2,077,052	$5,727,059	$4,360,276
United States	11,097,554	10,252,986	22,029,091	17,812,204
Other countries	218,731	188,593	502,920	424,660
	$11,986,842	$12,518,631	$28,259,070	$22,597,140

Long-lived assets of the Company are located in the following geographical location:

	September 30, 2022	March 31, 2022
Canada	$1,055,778	$20,724,674
United States	1,089,249	723,449
Total property, plant and equipment	$2,145,027	$21,448,123

	September 30, 2022	March 31, 2022
Canada	$1,792,595	$2,353,054
United States	16,000,001	19,301,981
Total intangible assets	$17,792,596	$21,655,035

	September 30, 2022	March 31, 2022
Canada	$2,382,374	$2,625,851
United States	11,971,966	19,542,437
Total goodwill	$14,354,340	$22,168,288

Assets held for sale by the Company are located in the following geographical location:

	September 30, 2022	March 31, 2022
Canada	$3,203,557	$—
Total assets held for sale	$3,203,557	$—

b) Revenues

The Company derives revenue from the sales of goods which are recognized at a point in time as follows:

	Three-month periods ended		Six-month periods ended	
	September 30, 2022	September 30, 2021	September 30, 2022	September 30, 2021
Nutraceutical products	$3,177,413	$4,040,553	$8,303,527	$7,241,221
Cannabis and hemp products	17,357	1,203,486	2,717,327	2,142,551
Food and beverages products	8,560,286	7,031,337	16,702,300	12,678,764
Innovation products	—	34,379	—	68,859
	$11,755,056	$12,309,755	$27,723,154	$22,131,395

17. Related parties:

Related party transactions and balances not disclosed elsewhere in these notes of the financial statements are as follows:

On November 11, 2019, Neptune announced that the Company entered into a collaboration agreement with International Flavors & Fragrances Inc. ("IFF") to co-develop hemp-derived products for the mass retail and health and wellness markets. App Connect Service, Inc. ("App Connect"), a company indirectly controlled by Michael Cammarata, CEO and Director of Neptune, is also a party to the agreement to provide related branding strategies and promotional activities.

Neptune will be responsible for the marketing and the sales of the products and will receive the amounts from the product sales. Neptune will in turn pay a royalty to IFF and App Connect associated with the sales of the co-developed products. The payment of royalties to App Connect, subject to certain conditions, has been approved by the TSX.

During the three and six-month periods ended September 30, 2022 and 2021, the Company recorded a negligible amount of royalty expense pursuant to the co-development contract and no royalties were paid to date.

18. Subsequent events:

On October 11, 2022, the Company announced the closing of a registered direct offering of 3,208,557 of its Common Shares and warrants to purchase up to 6,417,114 Common Shares in the concurrent Private Placement. The combined purchase price for one Common Share and one warrant was $1.87. The warrants have an exercise price of $1.62 per Common Share, are exercisable immediately following the date of issuance and will expire five years from the date of issuance. The Company received gross proceeds of approximately $6.0 million and net proceeds of $5.15 million after deducting the placement agent fees and expenses, and the Company's offering expenses. Based on the fair value of the warrants as at the date of closing, the Company expects to record the full proceeds to liabilities and a loss on initial recognition of approximately $1.0 million. Consequently, no value will be attributed to the common shares issued on October 11, 2022.

On November 8, 2022, Sprout entered into an agreement to issue an additional $525,000 of Secured Promissory Notes, on the same terms as the Secured Promissory Note entered into with MSEC discussed in note 9. In connection with this financing, Neptune will issue common shares to the holders of these Secured Promissory Notes for a value of $105,000.