

ITEM 2. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

You should read the following discussion and analysis together with our consolidated financial statements and related notes in Part I, Item 1. The following discussion contains forward-looking statements, which statements are subject to considerable risks and uncertainties. Our actual results could differ materially from those expressed or implied in any forward-looking statements as a result of various factors, including those set forth under the caption “Risk Factors” in Part II, Item 1A.

Certain statements contained in this Quarterly Report are “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Exchange Act, and are subject to the “safe harbor” created by these sections. Future filings with the SEC, future press releases and future oral or written statements made by us or with our approval, which are not statements of historical fact, may also contain forward-looking statements. Because such statements include risks and uncertainties, many of which are beyond our control, actual results may differ materially from those expressed or implied by such forward-looking statements. Some of the factors that could cause actual results to differ materially from those expressed or implied by such forward-looking statements can be found under the caption “Risk Factors” in Part II, Item 1A, and elsewhere in this Quarterly Report. The forward-looking statements speak only as of the date on which they are made, and we undertake no obligation to update such statements to reflect events that occur or circumstances that exist after the date on which they are made.

All amounts in the tables contained in this MD&A are in millions of dollars, except for basic and diluted income (loss) per share which are shown in dollars.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OVERVIEW

GENERAL

Neptune Wellness Solutions Inc. ("Neptune", the "Company", "we", "us" or "our") is a modern consumer packaged goods ("CPG") company driven by a singular purpose: to transform the everyday for a healthier tomorrow. Neptune is a diversified health and wellness company with multiple brand units. With a mission to redefine health and wellness, Neptune is focused on building a broad portfolio of high quality, affordable consumer products in response to long-term secular trends and market demand for natural, plant-based, sustainable and purpose-driven lifestyle brands. The Company utilizes a highly flexible, cost-efficient manufacturing and supply chain infrastructure that can be scaled up and down or into adjacent product categories to identify new innovation opportunities, quickly adapt to consumer preferences and demand, and bring new products to market through its mass retail partners and e-commerce channels. Leveraging decades of expertise in extraction and product formulation, Neptune is a provider of turnkey product development and supply chain solutions to business customers across several health and wellness verticals, including nutraceuticals and white label consumer packaged goods. Neptune has expanded its operations since June 2020 into brand units in order to better address its markets. The main brand units are Nutraceuticals and Organic Foods & Beverages. All amounts in this Quarterly Report are in US dollars, unless otherwise noted.

BUSINESS STRATEGY

Neptune's vision is to change consumer habits through the creation and distribution of environmentally friendly, ethical and innovative consumer product goods. Our mission is to redefine health and wellness and help humanity thrive by providing sustainable consumer focused solutions. Despite the decline in global economic activity since the outbreak of the COVID-19 virus, Neptune has taken transformative, and successful, actions to increase its sales, distribution and reach in both the business-to-business ("B2B") and business-to-consumer ("B2C") models in the consumer-packaged goods ("CPG") market. Neptune has a dual go-to market B2B and B2C strategy focused on expanding its global distribution reach. The strategy sets Neptune apart from its competition and has started to yield consistent, long-term revenue opportunities for the Company.

The Company's long-term strategy is focused on the health and wellness sector with an emphasis on select CPG verticals, including Nutraceuticals and Organic Foods & Beverages. Neptune's current brand portfolio across these verticals include Sprout®, Neptune Wellness™, Forest Remedies®, and MaxSimil®.

Neptune's future will be focused on brand creation, accelerating organic growth with emphasis on increased efficiency and margin expansion.

On August 7, 2023, the Company announced that its Board of Directors (the "Board") has initiated Phase II of a comprehensive review and evaluation of strategic options for the Company to unlock and maximize shareholder value. This phase will encompass consideration of all available strategic business and financial alternatives, which may include, but is not limited to, the monetization of assets, strategic partnerships, and/or the acquisition of the remaining parts of Sprout Organics through an equity/debt transaction. In 2021, we embarked on Phase I of our strategic review, a phase centered around streamlining our operations, maximizing resources, and realizing annualized cost savings. An essential part of this was the strategic divestiture and disposal of non-core assets to set the stage for our long-term goals. While we made significant strides, we recognize there's more to be accomplished. The Board and management deem it prudent to promptly commence the next phase of our strategic review process. Phase I of our strategic review was focused on building a strong foundation from which Neptune will be positioned to stabilize and grow into a pure-play CPG company. Our decision to formally commence Phase II of this strategic review reflects our commitment to rebuilding and enhancing shareholder value. We believe that this comprehensive evaluation of our strategic options acts as the first step toward allowing us to fully leverage our assets and deliver value for all our key stakeholders, including shareholders, customers, partners, and employees.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

SALES AND DISTRIBUTION

Nutraceutical Products

The Company sells its nutraceutical products mainly in bulk softgels or liquids to multiple distributors and customers, who commercialize these products under their private label. While the Company may have orders in place with approximately 100 different distributors and customers at any one time, the majority of the Company's sales are concentrated with a small group of distributors and customers. Agreements with these distribution partners may be terminated or altered by them unilaterally in certain circumstances.

The Company sells its Nutraceutical products through distributors and directly to retail outlets in the United States. It also sells its products online through its own website forestremedies.com as well as e-commerce sites.

Organic Foods and Beverages

The Company, through its Sprout subsidiary, sells its products to mass retailers, grocery stores and other retail outlets, as well as online through e-commerce sites and its own website sproutorganics.com.

OUR B2C BRAND PORTFOLIO STRATEGY

We are currently working on accelerating brand equity for our brand portfolio:



Biodroga™. Neptune, through its Biodroga subsidiary, provides product development and turnkey solutions (4PL) to its customers throughout North America. Biodroga offers a full range of services, whether it is leveraging our global network of suppliers to find the best ingredients or developing unique formulations that set our customers apart from their competition. Biodroga's core products are MaxSimil, various Omega-3 fish oils and other nutritional products, as well as softgel solutions.



MaxSimil. Neptune has an exclusive license to use the patented nutritional ingredient, MaxSimil, an omega-3 fatty acid delivery technology that uses enzymes that mimic the natural human digestive system to predigest omega-3 fatty acids. The Journal of Nutrition, by the Oxford University Press, recently released the results of a clinical study that evidences MaxSimil's superior absorption as compared with standard fish oil supplements. MaxSimil was first introduced to the market in 2018, and is sold as a straight omega-3 supplement with standard and unique concentration of EPA/DHA. MaxSimil is also starting to be presented in combination with specialty ingredients such as Curcumin and Vitamin K2.



Forest Remedies®. Under our Forest Remedies® brand, we offer first-of-their kind vegan multi-omega gummies and soft gels with packaging that is 100% plastic-free. Launched on March 10, 2022, our Forest Remedies Multi Omega 3-6-9 line of supplements marked an important milestone in our efforts to transform Neptune into a high-growth branded CPG company.



Sprout®. Neptune entered a new market with the Neptune/Sprout combination. Sprout has created a trusted organic baby food brand with a comprehensive range of products that are always USDA certified organic, non-GMO and contain nothing artificial. Sprout's products target four segments: Stage 2 (children 6 months and up), Stage 3 (children 8 months and up), Toddler (children aged 12 months and up) and Snacks (children 8 months and up). Since our acquisition of a controlling interest in Sprout, the Company has begun expansion efforts in Sprouts' distribution substantially in all of Target's U.S. retail stores. The Company also announced on July 27, 2021, its initial launch into the Canadian market through its partnership with food retailer Metro Inc. Certain toddler snacks under this brand label are now available in Metro grocery stores in the province of Ontario.

COMPETITION

The nutraceutical and organic foods and beverages industries are highly competitive. There are many companies, public and private universities, and research organizations actively engaged in the research and development of products that may be similar to our products. It is probable that the number of companies seeking to develop products similar to our products will increase. Many of these and other existing or potential competitors have substantially greater financial, technical and human resources than we do and may be better equipped to develop, manufacture and market products.

We seek to differentiate our products and marketing from our competitors based on product quality, customer service, marketing support, pricing and innovation, and believe that our strategy enables us to effectively compete in the marketplace. For additional information regarding the competitive nature of our businesses, see "Risks Related to Our Business" under the heading "Risk Factors" of this Form 10-Q.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

SEASONALITY

In addition to general economic factors, we are impacted by seasonal factors and trends such as major cultural events and other unpredictable matters. Although we believe the impact of seasonality on our consolidated results of operations is minimal, our quarterly results may vary significantly in the future due to the timing of nutraceutical contract manufacturing orders as well promotions and ordering patterns of our other customers. We cannot provide assurance future revenues will follow historical patterns. The market price of our common shares may be adversely affected by these factors.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

BUSINESS UPDATE

Liquidity and Going Concern

We are actively managing our liquidity and expenses, including by extending payables due and reducing investment in our businesses. There is substantial doubt about our ability to continue as a going concern. As of August 17, 2023, we had approximately \$1.9 million in cash and cash equivalents. We believe our current cash position will be sufficient to operate our business for approximately 2 months under our current business plan. In addition, we are pursuing several cash generating transactions as well as planning for further expense reductions. There can be no assurance that any cash generating transaction will be completed or that our expense reductions measures will be sufficient to allow us to continue operating our business. We need substantial additional funding to continue operating our business. If we are unable to continue as a going concern, we may have to liquidate our assets, and the values we receive for our assets in liquidation or dissolution could be significantly lower than the values reflected in our financial statements. We may have to liquidate our assets in the very near term if additional funding is not received in the upcoming months.

Our management has concluded that substantial doubt exists about our ability to continue as a going concern for one year from the issuance date of our latest financial statements, which substantial doubt continues to exist.

Financial Positioning

We are taking the steps necessary to shore up cash reserves in the immediate term and position our balance sheet properly to fund our growth initiatives as we push towards profitability. To this end, we have explored multiple options to balance the need for providing near-term financial stability while ensuring we continue to build long-term shareholder value. As a result, we have entered into multiple agreements for the purchase and sale of shares of our common stock and pre-funded warrants in October 2022, June 2022, March 2022 and May 2023. We also issued promissory notes in July 2022, November 2022 and January 2023, and entered into an accounts receivable factoring facility in January 2023, to which an inventory financing was added, effective April 21, 2023. Taking into account all considerations, we believe these actions are in the best interest of the company and will benefit shareholders in the long-term.

Closing of a \$4,000,000 Registered Direct Offering

On May 11, 2023, the Company announced the pricing of its public offering of 12,121,212 of its common shares (or common share equivalents in lieu thereof) and accompanying warrants to purchase up to an aggregate of 12,121,212 common shares at a combined public offering price of \$0.33 per share and accompanying warrant, resulting in gross proceeds of approximately \$4.0 million. The warrants have an exercise price of \$0.33 per share, are immediately exercisable upon issuance and will expire five years following the date of issuance. The closing of the offering occurred on May 15, 2023. The Company has used the proceeds of the offering, after repayment of debt, for general corporate purposes. Refer to the Use of Proceeds disclosures in the Financial section of the MD&A. While the Company does not currently have any agreement with respect to an acquisition, the Company intends to evaluate potential opportunities and could use proceeds of the offering to invest in one or more complementary businesses. The principal reasons for this offering are to increase the Company's working capital, improve its ability to access the capital markets in the future, and to provide capital for general corporate purposes.

In connection with this offering, the Company has agreed that certain existing warrants to purchase up to an aggregate of 8,423,733 common shares that were previously issued in March 2022, June 2022, and October 2022, at exercise prices ranging from \$1.62 to \$11.20 per share and expiration dates ranging from September 14, 2023 to June 23, 2029, were amended to reduce the exercise prices of the applicable warrants to \$0.33, with expiration dates five years following the closing of the offering, i.e. on May 15, 2028, with the exception of warrants to purchase up to 972,763 common shares which will expire on June 23, 2029 as currently contemplated.

Extended maturity for the Existing Secured Promissory Note from MSEC

On April 27, 2023, the Company announced that Sprout extended the maturity of its existing \$13 million secured promissory note with MSEC. The note maturity has been extended from February 1, 2024 to December 31, 2024, which will bear interest at the rate of 15.0% per annum through and including December 31, 2023, payable in kind, and 10.0% per annum, payable in kind, and 5.0% per annum payable in cash, from and after January 1, 2024.

Inventory Financing

On May 10, 2023, Neptune announced that Sprout has secured inventory financing through an Invoice Purchase and Security Agreement partnership with Alterna Capital Solutions LLC, effective April 21, 2023, in addition to the accounts receivable factoring facility that is already in place since January 25, 2023. The inventory line will provide Sprout with working capital. The maximum available has been amended to \$7.5 million, from \$5.0 million previously announced accounts receivable factoring facility.

Waiver Agreement

On May 22, 2023, the Company entered into a Waiver and Second Amendment to Note Purchase Agreement (the "Waiver Agreement"), with CCUR Holdings, Inc. and the purchasers named therein, related to the Note Purchase Agreement dated as of January 12, 2023. The Waiver Agreement provides that the required prepayment of \$2.0 million (the "Mandatory Prepayment"), due as of May 15, 2023, is waived, in part, until July 31, 2023, or for an additional thirty days thereafter if the Company has filed a Registration on Form S-1 with the Securities and Exchange Commission by July 31, 2023, which was effectively filed on July 31, 2023. Pursuant to the Waiver Agreement, the Company was required to pay, and has paid, \$1.0 million of the Mandatory Prepayment. For the period beginning on March 31, 2023, through and including the date that the entire Mandatory Prepayment, including interest and fees is paid, interest on the sum of the outstanding principal amounts will accrue at the rate of twenty four percent (24%) per annum. Thereafter, interest will revert to the rate otherwise provided under the Note Purchase Agreement. The Company also agreed to pay an extension fee in an aggregate amount of \$138,606, which was added to the principal amount due.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

RECENT CORPORATE DEVELOPMENTS

Change in Management

On August 4, 2023, the Company announced the promotion of Lisa Gainsborg, currently Neptune's Financial Controller, to Interim Chief Financial Officer, effective immediately, replacing Raymond Silcock who has resigned for personal reasons. Ms. Gainsborg possesses significant experience and knowledge of accounting and finance across both public and private companies, with background in financial statement preparation, Securities and Exchange Commission reporting, Sarbanes-Oxley compliance, the creation of accounting and reporting controls and procedures, and experience with developing enterprise resource planning systems.

Change in Auditors

On May 25, 2023, the Audit Committee and Board of Directors of the Company approved the engagement of Berkowitz Pollack Brant Advisors + CPAs ("BPB") as our independent registered public accounting firm to audit our consolidated financial statements for the year ending March 31, 2024. Accordingly, KPMG LLP ("KPMG"), which was previously serving as the Company's independent auditors, were informed that they will be dismissed upon completion of their audit of the Company's consolidated financial statements as of and for the year ended March 31, 2023 and the issuance of their report thereon. The engagement of BPB is subject to the approval of the shareholders at the next Annual General Meeting.

Receipt of NASDAQ Notifications

The Company has received a written notification (the "Notification Letter") from the Nasdaq Stock Market LLC ("Nasdaq") on December 29, 2022, notifying the Company that it is not in compliance with the minimum bid price requirement set forth in Nasdaq Listing Rule 5550(a)(2), which requires that the closing bid price for the Company's common shares listed on Nasdaq be maintained at a minimum of US\$1.00. Listing Rule 5810(c)(3)(A) provides that a failure to meet the minimum bid price requirement exists if the deficiency continues for a period of 30 consecutive business days. Based on the closing bid price of the Company's common shares for the 30 consecutive business days from November 15, 2022 to December 28, 2022, the Company no longer met the minimum bid price requirement.

The Notification Letter has no immediate effect on the listing of the Company's common shares on Nasdaq. In accordance with Nasdaq Listing Rule 5810(c)(3)(A), the Company has been provided 180 calendar days, or until June 27, 2023, to regain compliance with the minimum bid price requirement, during which time the Company's common shares will continue to trade on the Nasdaq Capital Market. To regain compliance, the Company's common shares must have a closing bid price of at least US\$1.00 for a minimum of 10 consecutive trading days. On June 27, 2023, the Company filed for an extension to this deadline and the Nasdaq has determined that the Company is eligible for an additional 180 calendar day period, or until December 26, 2023, to regain compliance. If at any time before December 26, 2023, the bid price of our Common Shares closes at \$1.00 per share or more for a minimum of 10 consecutive business days, the Nasdaq will provide written confirmation that we have regained compliance. The Company's business operations are not affected by the receipt of the Notification Letter. The Company intends to monitor the closing bid price of its common shares and may, if appropriate, consider implementing available options, including, but not limited to, implementing a reverse share split of its outstanding common shares, to regain compliance with the minimum bid price requirement under the Nasdaq Listing Rules.

On July 21, 2023, the Company announced that it has received a letter from the Nasdaq Stock Market LLC ("Nasdaq") notifying the Company that, based on the reported stockholders' equity of Neptune as reported in its recent Annual Report on Form 10-K, the Company does not meet the minimum stockholders' equity requirement for continued listing on the Nasdaq Capital Market under the equity criteria under Nasdaq Listing Rule 5550(b)(1) stating listed companies must maintain stockholders' equity of at least \$2,500,000. The Nasdaq notification letter has no immediate effect on the Company's business operations or the listing of the Company's common shares, and they will continue to trade on the Nasdaq Capital Market under the symbol "NEPT". Pursuant to the Nasdaq Listing Rule 5550(b)(1) the Company has 45 calendar days, or until September 5, 2023, to submit a plan to regain compliance. If the plan is accepted, Nasdaq can grant an extension of 180 calendar days from the date of the letter to evidence compliance. The Company intends to regain compliance within the applicable compliance period and is currently working on a plan to submit to Nasdaq.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

SELECTED CONSOLIDATED ANNUAL AND QUARTERLY INFORMATION

SELECTED CONSOLIDATED FINANCIAL INFORMATION (in millions, except per share data)

The following table sets out selected consolidated financial information.

	Three-month periods ended		
	June 30, 2023	June 30, 2022	Recasted
	\$	\$	\$
Total revenues	10.628	16.272	
Adjusted EBITDA ¹	(7.267)	(11.351)	
Net loss	(6.400)	(6.504)	
Net loss attributable to equity holders of the Company	(4.914)	(4.284)	
Net loss attributable to non-controlling interest	(1.486)	(2.220)	
Basic and diluted loss per share	(0.30)	(0.72)	
Basic and diluted loss attributable to common shareholders of the Company	(0.30)	(0.72)	

	As at June 30, 2023	As at March 31, 2023	As at March 31, 2022
	\$	\$	\$
Total assets	30.538	30.928	104.955
Working capital ²	(21.627)	(17.484)	7.071
Non-current financial liabilities	17.616	17.455	13.800
(Deficiency) equity attributable to equity holders of the Company	(14.998)	(11.940)	48.116
(Deficiency) equity attributable to non-controlling interest	(17.107)	(15.621)	12.722

¹ The Adjusted EBITDA is a non-GAAP measure. It is not a standard measure endorsed by US GAAP requirements. A reconciliation to the Company's net loss is presented below. In the quarter ended September 30, 2022, the Company recasted comparative Adjusted EBITDA to conform to its current definition. As a result, the following adjustments were removed in the current and comparative quarters: litigation provisions, business acquisition and integration costs, signing bonus, severance and related costs, and write-down of inventories and deposits.

² Working capital is calculated by subtracting current liabilities from current assets. Because there is no standard method endorsed by US GAAP, the results may not be comparable to similar measurements presented by other public companies. Current assets as at June 30, 2023, March 31, 2023 and March 31, 2022 were \$23.399, \$23.550 and \$37.388 respectively, and current liabilities as at June 30, 2023, March 31, 2023 and March 31, 2022 were \$45.026, \$41.034 and \$30.317 respectively.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

CONSOLIDATED FINANCIAL ANALYSIS

NON-GAAP FINANCIAL PERFORMANCE MEASURES

The Company uses one adjusted financial measure, Adjusted Earnings Before Interest, Taxes, Depreciation and Amortization ("Adjusted EBITDA") to assess its operating performance. This non-GAAP financial measure is presented in a consistent manner, unless otherwise disclosed. The Company uses this measure for the purposes of evaluating its historical and prospective financial performance, as well as its performance relative to competitors. The measure also helps the Company to plan and forecast for future periods as well as to make operational and strategic decisions. The Company believes that providing this information to investors, in addition to its GAAP financial statements, allows them to see the Company's results through the eyes of Management, and to better understand its historical and future financial performance. Neptune's method for calculating Adjusted EBITDA may differ from that used by other corporations.

A reconciliation of net loss to Adjusted EBITDA is presented below.

ADJUSTED EBITDA

Although the concept of Adjusted EBITDA is not a financial or accounting measure defined under US GAAP and it may not be comparable to other issuers, it is widely used by companies. Neptune obtains its Adjusted EBITDA measurement by excluding from its net loss the following items: net finance costs (income), depreciation and amortization, and income tax expense (recovery). Other items such as equity classified stock-based compensation, non-employee compensation related to warrants, impairment losses on non-financial assets, revaluations of derivatives, costs related to conversion from IFRS to US GAAP and other changes in fair values are also added back to Neptune's net loss. The exclusion of net finance costs (income) eliminates the impact on earnings derived from non-operational activities. The exclusion of depreciation and amortization, stock-based compensation, non-employee compensation related to warrants, impairment losses, revaluations of derivatives and other changes in fair values eliminates the non-cash impact of such items, and the exclusion of costs related to conversion from IFRS to US GAAP, together with the other exclusions discussed above, present the results of the on-going business. From time to time, the Company may exclude additional items if it believes doing so would result in a more effective analysis of underlying operating performance. Adjusting for these items does not imply they are non-recurring. For purposes of this analysis, the Net finance costs (income) caption in the reconciliation below includes the impact of the revaluation of foreign exchange rates.

In the quarter ended September 30, 2022, the Company recast comparative Adjusted EBITDA to conform to the current definition. As a result, the following adjustments were removed in the current and comparative quarters: litigation provisions, business acquisition and integration costs, signing bonus, severance and related costs, and write-down of inventories and deposits.

Adjusted EBITDA¹ reconciliation, in millions of dollars

	Three-month periods ended	
	June 30, 2023	June 30, 2022 Recasted
Net loss for the period	\$(6.400)	\$(6.504)
Add (deduct):		
Depreciation and amortization	0.341	1.039
Revaluation of derivatives	(3.617)	(9.524)
Net finance costs	1.793	1.635
Equity classified stock-based compensation	0.616	1.187
Impairment loss on long-lived assets	—	0.816
Adjusted EBITDA ¹	\$(7.267)	\$(11.351)

¹ The Adjusted EBITDA is not a standard measure endorsed by US GAAP requirements. In the quarter ended September 30, 2022, the Company recasted comparative Adjusted EBITDA to conform to its current definition. As a result, the following adjustments were removed in the current and comparative quarters: litigation provisions, business acquisition and integration costs, signing bonus, severance and related costs, and write-down of inventories and deposits.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OPERATING SEGMENTS

The Company's management structure and performance is measured based on a single segment, which is the consolidated level, as this is the level of information used in internal management reports that are reviewed by the Company's Chief Operating Decision Maker.

Geographical information

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

	Three-month periods ended	
	June 30, 2023	June 30, 2022
	Total Revenues	Total Revenues
Canada	\$3.801	\$5.056
United States	6.805	10.932
Other countries	0.022	0.284
	\$10.628	\$16.272

The Company's property plant and equipment, intangible assets, goodwill and assets held for sale are attributed to geographical locations based on the location of the assets.

	As at June 30, 2023		
	Property, plant and equipment	Goodwill	Intangible assets
Canada	\$0.224	\$2.480	\$1.531
United States	1.035	—	—
Total	\$1.259	\$2.480	\$1.531

	As at March 31, 2023		
	Property, plant and equipment	Goodwill	Intangible assets
Canada	\$0.251	\$2.426	\$1.607
United States	1.152	—	—
Total	\$1.403	\$2.426	\$1.607

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

RESULTS ANALYSIS

Summary of Changes to the Condensed Consolidated Interim Statements of Loss Three-month period ended June 30, 2023 compared to June 30, 2022

	For the three-month period ended		Changes	
	June 30, 2023	June 30, 2022	Changes in \$	Changes in %
		Recasted		
Total revenues	\$10.628	\$16.272	(5.644)	-34.7%
Total cost of sales	(7.817)	(20.752)	12.935	62.3%
Gross profit (loss)	2.811	(4.480)	7.291	162.7%
Gross profit (loss) margin	26.4%	-27.5%	54.0%	-196.1%
Research and development expenses, net of tax credits and grants	(0.022)	(0.215)	0.193	89.8%
Selling, general and administrative expenses	(10.041)	(8.967)	(1.074)	-12.0%
Impairment losses	—	(0.816)	0.816	100.0%
Other elements from the operating loss	—	0.085	(0.085)	-100.0%
Loss from operating activities	(7.252)	(14.393)	7.141	49.6%
Net finance costs	(1.793)	(0.915)	(0.878)	-96.0%
Foreign exchange gain (loss)	(0.184)	1.407	(1.591)	-113.1%
Gain on issuance and change in fair value of derivatives	2.829	7.397	(4.568)	-61.8%
	0.852	7.889	(7.037)	-89.2%
Loss before income taxes	(6.400)	(6.504)	0.104	1.6%
Income tax recovery	—	—	—	0.0%
Net loss	(6.400)	(6.504)	0.104	1.6%
Adjusted EBITDA	(7.267)	(11.351)	4.084	36.0%

Revenues

Total consolidated revenues for the three-month period ended June 30, 2023 amounted to \$10.6 million representing a decrease by \$5.6 million or 35% compared to \$16.3 million for the three-month period ended June 30, 2022.

Food and beverages revenues represented an increase of \$0.2 million or 2% in comparison to the quarter ended June 30, 2022, resulting from Sprout's extended distribution in all 50 U.S. states and Canada. As for Neutraceuticals revenues, there was a decrease of \$2.9 million or 57% when compared to the same period the prior year due to timing as Nutraceutical B2B sales are not quarterly linear. In addition, there was a decrease of \$2.7 million or 100% in Cannabis revenues from the now-divested Cannabis business.

Geographic Revenues

From a geographic point of view, revenues for the current quarter decreased by \$1.3 million or 25% in Canada, decreased by \$4.1 million or 38% in the United States and decreased by \$0.263 million or 92% for other countries (all royalty revenues) compared to the quarter ended June 30, 2022.

The decrease of revenue in Canada for the quarter is mainly due to the divestiture of the Cannabis business.

Gross Profit (Loss)

Gross profit (loss) is calculated by deducting the cost of sales from total revenues. Cost of sales consists primarily of costs incurred to manufacture products, including sub-contractors, freight expenses and duties on raw materials, storage and handling costs and lab testing on raw materials, and to acquire finished goods.

The consolidated gross profit (loss) for the three-month period ended June 30, 2023 amounted to \$2.8 million compared to \$(4.5) million for the three-month period ended June 30, 2022, an improvement of \$7.3 million or 163%.

This change is due to a decrease in revenues of \$5.6 million offset by a reduction in cost of sales of \$12.9 million. This improvement to the Gross profit was attributable to the increase in food and beverage revenues, the divestiture of the cannabis business and cost cutting measures, offset by the decrease in neutraceutical revenues due to timing of customer orders

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Gross Margin Percentage

For the three-month periods ended June 30, 2023 and 2022, the consolidated gross margin went from (27.5)% in 2022 to 26.4% in 2023, an increase of 54.0 basis points.

Research and Development ("R&D") Expenses

For the quarter ended June 30, 2023, the consolidated R&D expenses amounted to \$0.0 million, compared to \$0.2 million for the quarter ended June 30, 2022, a decrease by \$0.2 million or 90%, as most of the R&D expenses used to be in the now divested Cannabis business.

Selling, General and Administrative ("SG&A") Expenses

Consolidated SG&A expenses for the quarter ended June 30, 2023 amounted to \$10.0 million compared to \$9.0 million for the same period the prior year, an increase by \$1.1 million or 12% primarily due to the increase in consulting expenses and accounting fees related to the filing of the 10K.

Impairment losses

Aggregate impairment losses amounted to \$0.0 million compared to \$0.8 million for the same period last year, decrease of \$0.8 million or 100%. There was no impairment losses for the current period.

Finance costs

Net finance costs, foreign exchange and loss on issuance of derivatives amounted to a gain of \$0.9 million for the quarter ended June 30, 2023, compared to a gain of \$7.9 million for the three-month period ended June 30, 2022, a decrease of \$7 million or 89% for the quarter ended June 30, 2023. The variation for this period is mainly attributable to the increase in interest expense on the Company's financing facilities, the reduction in the gain on revaluation of warrant liabilities as well as foreign exchange impact. The gain on revaluation of the warrants was primarily driven by the decrease in the Company's stock price.

Income taxes

Income tax expense (recovery) was nil for the three-month periods ended June 30, 2023 and 2022. As entities are in carry forward loss positions, there is no impact to income taxes for the quarter.

Adjusted EBITDA

Consolidated Adjusted EBITDA loss decreased by \$4.1 million or 36% for the quarter ended June 30, 2023 to an Adjusted EBITDA loss of \$7.3 million compared to \$11.4 million for the quarter ended June 30, 2022. The decrease in Adjusted EBITDA loss for the quarter ended June 30, 2023 compared to the quarter ended June 30, 2022 was driven by an improvement in loss from operating activities of \$7.1 million, offset by a reduction of impairment losses of \$.8 million and an addback of SG&A expenses including depreciation, equity classified stock-based compensation, non-employee compensation related to warrants of \$2.2 million.

Net loss

For the quarter ended June 30, 2023, the net loss amounted to \$6.4 million compared to \$6.5 million for the quarter ended June 30, 2022, a decrease by \$0.1 million or 2%. was driven by the increase in gross profit of \$7.3 million, the decrease in R&D expenses of \$0.2 million the reduction in impairment losses of \$0.8 million offset by the increase in SG&A expenses of \$1.1 million, increase in finance costs of \$0.9 million, foreign exchange loss of \$1.6 million and gain on the fair value of derivatives of \$4.6 million.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FINANCIAL AND CAPITAL MANAGEMENT

USE OF PROCEEDS

The use of proceeds for the three-month periods ended June 30, 2023 and 2022, in millions of dollars, was as follows:

	Three-month periods ended	
	June 30, 2023	June 30, 2022
Sources:		
Proceeds from the issuance of shares and warrants through a Direct Offering	\$4.000	\$5.000
Proceeds from exercise of options and pre-funded warrants	0.001	—
Increase in loans and borrowings	2.009	—
Foreign exchange gain on cash and cash equivalents held in foreign currencies	0.437	—
	6.447	5.000
Uses:		
Acquisition of property, plant and equipment	0.004	—
Repayment of loans and borrowings	1.000	—
Costs of issuance of shares and warrants	0.759	0.465
Foreign exchange loss on cash and cash equivalents held in foreign currencies	—	0.647
Cash flows used in operating activities	5.298	6.382
	7.061	7.494
Net cash outflows	\$(0.614)	\$(2.494)

Sources of Funds

For the three-month period ended June 30, 2023, the increase in loans and borrowings, net of repayments, was \$2.0 million and proceeds from a Direct Offering were of \$4.0 million. The proceeds were mainly used for operating activities, primarily inventory procurement, salaries and professional fees. For the three-month period ended June 30, 2022, gross proceeds of \$5.0 million were raised from a Direct Offering with \$6.4 million of cash being used for operating activities and an additional \$1.1 million for other purposes, bringing net cash outflows in the period to \$2.5 million.

Direct Offerings

On May 15, 2023, Neptune issued a total of 7,706,050 pre-funded warrants ("Pre-Funded Warrants"), along with 4,415,162 common shares of the Company, as part of a registered direct offering ("May 2023 Direct Offering"). Each Pre-Funded Warrant was exercisable for one Common Share. The common shares and the Pre-Funded Warrants were sold together with 12,121,212 May 2023 Warrants (the "May 2023 Warrants"). Each of the May 2023 Warrant is exercisable for one common share. Each of the common share and Pre-Funded Warrants and the accompanying May 2023 Warrants were sold together at a combined offering price of \$0.33, for aggregate gross proceeds of \$4.0 million 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 May 2023 Warrants have an exercise price of \$0.33 per share and can be exercised for a period of 5 years from the date of issuance. The Pre-Funded Warrants were exercised in part during the three-month ended June 30, 2023 for gross proceeds of \$541.

On June 23, 2022, Neptune closed agreements with several institutional investors for the purchase and sale of an aggregate of 1,300,000 common shares of the Company, 645,526 pre-funded warrants and accompanying series of warrants to purchase up to an aggregate of 2,591,052 common shares warrants, at an offering price of \$2.57 per share and accompanying warrants in a registered direct offering priced at-the-market under Nasdaq rules. Each series of warrants have an exercise price of \$2.32 per share and are immediately exercisable upon issuance. One series of warrants will expire two years following the date of issuance and one series of warrants will expire five years following the date of issuance. The gross proceeds from the offering were \$5.0 million, prior to deducting placement agent's fees and other offering expenses payable by Neptune. The pre-funded warrants were fully exercised on June 24, 2022 for \$65.

Loans and borrowings

On July 13, 2022, Neptune announced that Sprout Foods Inc. ("Sprout"), the Company's organic plant-based baby food and toddler snack company, 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") have 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. The amended Secured Promissory Notes may be converted, in whole or in part, at any time upon the mutual consent of Sprout, the Company and MSEC, into common shares of the Company. MSEC was issued 372,670 common shares of Neptune, having a value of \$0.6 million in connection with this commitment, for the payment of borrowing costs. On April 27, 2023, the Company announced that Sprout extended the maturity of its existing \$13 million secured promissory note with MSEC. The note maturity has been extended from February 1, 2024 to December 31, 2024, which will bear interest at the rate of 15.0% per annum through and including December 31, 2023, payable in kind, and 10.0% per annum, payable in kind, and 5.0% per annum payable in cash, from and after January 1, 2024.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

On August 26, 2022, Neptune's Sprout subsidiary entered in a new \$0.25 million Secured Promissory Note agreement. The maturity date of the new note facility is February 1, 2024. The \$0.25 million Secured Promissory Note has a 10% interest rate per annum, increasing by 1% per annum every three months during the term of this Secured Promissory Note. The interest will be compounded and added to the principal amount on a quarterly basis. This Secured Promissory Note may be converted, in whole or in part, at any time upon the mutual consent of Sprout, the Company and the holder, into common shares of the Company. Neptune issued 36,765 common shares having a value of \$0.1 million in connection with this Secured Promissory Note, for the payment of borrowing costs.

On November 8, 2022, Sprout entered into two agreements to issue an additional \$0.55 million of Secured Promissory Notes, on the same terms as the previous Secured Promissory Note discussed above. In connection with these financings, Neptune issued 146,330 common shares for a value of \$0.1 million to the holders of these Secured Promissory Notes on February 15, 2023, for the payment of borrowing costs.

On January 13, 2023, Neptune announced that it has closed on a senior secured notes financing (such notes, the "Notes") for gross proceeds of \$4.0 million with CCUR Holdings, Inc. and Symbolic Logic, Inc. (collectively, the "Noteholders"). The Notes will mature 12 months from the initial closing and bear interest at a rate of 16.5% per annum. The notes are secured by the assets of Neptune excluding the assets of Sprout. Interest will be payable in kind on the first 6 monthly payment dates after the initial closing date and thereafter will be payable in cash. Pursuant to the terms of the Notes, the Company also issued to the Noteholders warrants to purchase an aggregate of 850,000 shares of Neptune common stock, with each warrant exercisable for 5 years following the initial issuance at a price of \$0.53 per common share. On March 9, 2023, the Company entered into a Waiver and First Amendment to the Notes (the "Waiver Agreement"). The Waiver Agreement waives certain administrative, regulatory and financial statement related covenants as further described in the Waiver Agreement as required by the terms of the Notes. The lender has the right to demand immediate repayment in the event of default. Furthermore, in connection with the Waiver Agreement, the Notes were amended to provide that the Purchasers shall be paid an exit fee in the aggregate amount of \$0.2 million, payable as follows: (i) on or prior to May 15, 2023, \$0.1 million and (ii) on the Maturity Date (as defined in the Note Purchase Agreement), \$0.1 million and the interest rate was increased to 24% for a period extending until the Company meets specified criteria in the Waiver Agreement. On May 22, 2023, the "Company" entered into a Waiver and Second Amendment to Note Purchase Agreement (the "Second Waiver Agreement"), with CCUR Holdings, Inc. ("Collateral Agent") and the purchasers named therein, related to the Note Purchase Agreement dated as of January 12, 2023 (the "Note Purchase Agreement"). The Second Waiver Agreement provides that the required prepayment of \$2 million (the "Mandatory Prepayment"), due as of May 15, 2023, is waived, in part, until July 31, 2023, or for an additional thirty days thereafter if the Company has filed a Registration on Form S-1 with the Securities and Exchange Commission by July 31, 2023. Pursuant to the Second Waiver Agreement, the Company was required to pay, and has paid, \$1 million of the Mandatory Prepayment. For the period beginning on March 31, 2023, through and including the date that the entire Mandatory Prepayment, including interest and fees is paid, interest on the sum of the outstanding principal amounts will accrue at the rate of 24% per annum. Thereafter, interest will revert to the rate otherwise provided under the Note Purchase Agreement. The Company also agreed to pay an extension fee in an aggregate amount of \$138,606, which was added to the principal amount due.

On January 25, 2023, Neptune announced that its organic baby food brand subsidiary, Sprout Organics, has entered into an accounts receivable factoring facility with Alterna Capital Solutions, LLC ("Alterna"). The maximum available is \$5 million. The terms of the agreement include a Funds Usage Fee of prime plus 1% with a minimum interest rate of 8% per annum. Alterna was granted a security interest in Sprout's accounts receivable. The agreement will remain in effect for a 12-month period, effective January 23, 2023, and will be automatically renewed. Neptune provided a commercial guaranty in connection with this agreement. On May 10, 2023, Neptune announced that Sprout has secured inventory financing through an Invoice Purchase and Security Agreement partnership with Alterna, effective April 21, 2023. The inventory line will provide Sprout with working capital for additional inventory to meet consumer demand and product line expansion. The maximum available has been amended to \$7.5 million, from \$5.0 million previously announced on January 25, 2023, adding a line of inventory to the accounts receivable factoring facility that is already in place.

On March 10, 2023, Sprout issued promissory notes for gross proceeds of \$0.3 million to various investors, on the same terms as the MSEC promissory notes. Pursuant to the terms of the promissory notes, the Company also issued to these investors warrants ("March 2023 Warrants") to purchase an aggregate of 111,111 shares of Neptune common stock, with each warrant exercisable for 5 years following the initial issuance at a price of \$0.54 per common share. The aggregate fair value on issuance of the March 2023 Warrants was \$0.0 million.

CAPITAL RESOURCES

Liquidity position

As at June 30, 2023, the Company's liquidity position, consisting of cash and cash equivalents, was \$1.4 million. Furthermore, as at June 30, 2023, the Company's trade and other payables 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. As of the date the financial statements are authorized for issuance, the cash balance is expected to be sufficient to operate the business for approximately 2 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.

Liquidity and Capital Resources

Cash flows and financial condition for the three-month periods ended June 30, 2023 and 2022

Summary

As at June 30, 2023, cash and cash equivalent totaled \$1.4 million, a decrease of \$0.6 million or 31% compared to cash and cash equivalents totaling \$2.0 million as at June 30, 2022.

Operating activities

During the three-month period ended June 30, 2023 our operating activities used cash of \$5.3 million compared to \$6.4 million in the three-month period ended June 30, 2022.

Investing activities

The Company's business models require low capital expenditures ("CAPEX") future investments. For the three-month period ended June 30, 2023, \$0.0 million was used for investing activities; in the same period the prior year, \$0.0 million was used for investing activities.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Financing activities

The Company has been successful in obtaining financing from public issuances, private placements and debts. The Company entered into Registered Direct Offerings closed on June 23, 2022 (\$5.0 million), October 11, 2022 (\$6.0 million) and May 15, 2023 (\$4.0 million). Secured promissory notes totaling \$4.1 million were issued by Sprout during the year ended March 31, 2023: \$3.0 million in July 2022, \$0.25 million in August 2022, \$0.55 million in November 2022 and \$0.3 million in March 2023. Senior secured notes of \$4.0 million were also issued by Neptune in January 2023. Also in January 2023, Sprout entered into an accounts receivable factoring facility, for which the maximum available was \$5.0 million, which was increased to \$7.5 million in April 2023 following the addition of an inventory financing (of which \$4.9 million was used as at June 30, 2023).

The Company's current cash position will be sufficient to support its financial needs approximately 2 months under the current business plan. Should the Company's various financing initiatives such as potential public issuances, private placements, preferred shares issuances, or debt financings not materialize, further actions such as further cost reduction initiatives and Company spinoffs of subsidiaries remain as viable options. See the Going Concern section of this Management's Discussion and Analysis of Financial Condition and Results of Operations.

Furthermore, certain liabilities, such as the warrant liabilities, are dependent on Neptune's share price and would only become payable if they are in the money. The warrants, if exercised, settle in common shares of the Company and therefore do impact on the Company's cash. Unless exercised on a cashless basis (where permitted), warrant holders are required to pay the cash strike price to exercise the warrant and thus the exercise of warrants could result in a cash infusion to the Company.

Loans and borrowings

On February 10, 2021, as part of the Sprout acquisition, Sprout issued a promissory note of \$10.0 million guaranteed by the Company and secured by a first-ranking mortgage on all movable assets of Sprout current and future, corporeal and incorporeal, and tangible and intangible. The outstanding principal balance bears interest at the rate of 10% 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. On April 27, 2023, the Company announced that Sprout extended the maturity of its existing \$13 million secured promissory note with MSEC. The note maturity has been extended from February 1, 2024 to December 31, 2024, which will bear interest at the rate of 15.0% per annum through and including December 31, 2023, payable in kind, and 10.0% per annum, payable in kind, and 5.0% per annum payable in cash, from and after January 1, 2024.

On August 26, 2022, Sprout entered in a new \$0.25 million Secured Promissory Note agreement. The maturity date of the new note facility is February 1, 2024. The \$250,000 Secured Promissory Note has a 10% interest rate per annum, increasing by 1% per annum every three months during the term of this Secured Promissory Note. The interest will be compounded and added to the principal amount on a quarterly basis. This Secured Promissory Note may be converted, in whole or in part, at any time upon the mutual consent of Sprout, the Company and the holder, into common shares of the Company. Neptune issued 36,765 common shares for a value of \$0.1 million in connection with this Secured Promissory Note, for the payment of borrowing costs.

On November 8, 2022, Sprout entered into an agreement to issue an additional \$0.55 million of Secured Promissory Notes, on the same terms as the Secured Promissory Note entered into with MSEC. On February 15, 2023, in connection with this financing, Neptune issued 146,330 common shares to the holders of these Secured Promissory Notes for a value of \$0.1 million.

On January 13, 2023, Neptune announced that it has closed on a senior secured notes financing (such notes, the "Notes") for gross proceeds of \$4.0 million with CCUR Holdings, Inc. and Symbolic Logic, Inc. (collectively, the "Noteholders"). The Notes will mature 12 months from the initial closing and bear interest at a rate of 16.5% per annum. The notes are secured by the assets of Neptune excluding the assets of Sprout. Interest will be payable in kind on the first 6 monthly payment dates after the initial closing date and thereafter will be payable in cash. Pursuant to the terms of the Notes, the Company also issued to the Noteholders warrants to purchase an aggregate of 850,000 shares of Neptune common stock, with each warrant exercisable for 5 years following the initial issuance at a price of \$0.53 per common share. On March 9, 2023, the Company entered into a Waiver and First Amendment to the Notes (the "Waiver Agreement"). The Waiver Agreement waives certain administrative, regulatory and financial statement related covenants as further described in the Waiver Agreement as required by the terms of the Notes. The lender has the right to demand immediate repayment in the event of default. Furthermore, in connection with the Waiver Agreement, the Notes were amended to provide that the Purchasers shall be paid an exit fee in the aggregate amount of \$0.2 million, payable as follows: (i) on or prior to May 15, 2023, \$0.1 million and (ii) on the Maturity Date (as defined in the Note Purchase Agreement), \$0.1 million and the interest rate was increased to 24% for a period extending until the Company meets specified criteria in the Waiver Agreement.

On January 25, 2023, Neptune announced that its organic baby food brand subsidiary, Sprout Organics, has entered into an accounts receivable factoring facility with Alterna Capital Solutions, LLC ("Alterna"). The maximum available is \$5 million. The terms of the agreement include a Funds Usage Fee of prime plus 1% with a minimum interest rate of 8% per annum. Alterna was granted a security interest in Sprout's accounts receivable. The agreement will remain in effect for a 12-month period, effective January 23, 2023, and will be automatically renewed. Neptune provided a commercial guaranty in connection with this agreement. On May 10, 2023, Neptune announced that Sprout has secured inventory financing through an Invoice Purchase and Security Agreement partnership with Alterna, effective April 21, 2023. The inventory line will provide Sprout with working capital for additional inventory to meet consumer demand and product line expansion. The maximum available has been amended to \$7.5 million, from \$5.0 million previously announced on January 25, 2023, adding a line of inventory to the accounts receivable factoring facility that is already in place.

On March 10, 2023, Sprout issued promissory notes for gross proceeds of \$0.3 million to various investors, on the same terms as the MSEC promissory notes. Pursuant to the terms of the promissory notes, the Company also issued to these investors warrants ("March 2023 Warrants") to purchase an aggregate of 111,111 shares of Neptune common stock, with each warrant exercisable for 5 years following the initial issuance at a price of \$0.54 per common share.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Form S-3 Limitations

As a result of our inability to timely file the Annual Report for the year ended March 31, 2023 under the Securities Exchange Act of 1934, as amended, we will not be eligible to use a registration statement on Form S-3 to conduct public offerings of our securities until we have timely filed all periodic reports with the SEC for a period of twelve months. Our inability to use Form S-3 during this time period may have a negative impact on our ability to access the public capital markets in a timely fashion because we are required to file a long-form registration statement on Form S-1 and have it reviewed and declared effective by the SEC. This may limit our ability to access the public markets to raise debt or equity.

Equity

Equity consists of the following items (in millions):

		June 30, 2023		March 31, 2023
Share capital	\$	323.411	\$	321.946
Warrants		6.291		6.155
Additional paid-in capital		58.755		58.139
Accumulated other comprehensive loss		(14.899)		(14.539)
Deficit		(388.556)		(383.641)
Total equity (deficiency) attributable to equity holders of the Company	\$	(14.998)	\$	(11.940)
Total equity (deficiency) attributable to non-controlling interest		(17.107)		(15.621)
Total equity (deficiency)	\$	(32.105)	\$	(27.561)

CONTRACTUAL OBLIGATIONS

The following are the contractual obligations as at June 30, 2023:

					June 30, 2023	
	Carrying amount	Contractual Cash flows	Less than 1 year	1 to 3 years	4 to 5 years	More than 5 years
Required payments per year						
Trade and other payables and provisions	\$29.487	\$27.765	\$26.737	\$—	\$—	\$—
Lease liabilities ¹	2.280	2.530	0.504	0.826	0.291	0.908
Loans and borrowings ^{2,4}	25.218	26.305	9.565	16.740	—	—
Other liability ³	0.023	15.000	—	—	—	15.000
	\$57.008	\$71.600	\$36.806	\$17.566	\$0.291	\$15.908

(1) Includes interest payments to be made on lease liabilities corresponding to discounted effect.

(2) Includes interest payments to be made on loans and borrowings.

(3) According to the employment agreement with the CEO, a long-term incentive is payable if the Company reaches a level of market capitalization.

Liabilities related to warrants are excluded from the table above, as they are to be settled in shares. A \$2.75 million accrual for the settlement of a legal case was also excluded from the contractual cash flows for trade and other payables and provisions, as the Company intends to settle in shares.

Under the terms of its financing agreements, the Company is not required to meet financial covenants. However the Company does have several covenants related to other matters such as financial statement deadlines, which if not respected, provide for certain obligations to become due on demand. The Company does not currently have funds available to repay lenders were that to occur.

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. The parties also agreed that if certain contingencies did not occur by December 31, 2021, the parties would negotiate for a period of 30 days and, in the absence of an agreement, would be entitled to a grant of vested RSUs with a value of approximately \$8.6 million (or if the Company is unable to grant such RSUs, then a combination of cash and vested RSUs with equivalent value). On January 31, 2022, the parties agreed to extend the 30-day negotiation period for an additional 30 days. As the strategic partnership was not consummated by December 31, 2021, the CEO was entitled to the compensation mentioned above. The Company has accrued in trade and other payable the liability to the CEO of \$8.6 million during the year ended March 31, 2023 and the balance of the accrual was \$0.0 million as at June 30, 2023. The related charge for the three-month period ended June 30, 2023 is nil and would have otherwise been included in selling general and administrative expenses.

The Company is required to pay royalties of 1% of its revenues in semi-annual installments, for an unlimited period to the former CEO. A provision of \$1.0 million for royalty payments is included in the table above for amounts currently due and is not otherwise included in table above.

Refer also to provisions disclosed in note 9, commitments disclosed in note 16(a) and legal proceedings in note 16(b) of the consolidated financial statements for the years ended June 30, 2023 and 2022.

The Company has no significant off-balance sheet arrangements as at June 30, 2023, other than those mentioned above and the commitments disclosed in note 16 of the condensed consolidated interim financial statements for the three-month periods ended June 30, 2023 and 2022.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

ACCOUNTING POLICIES

OUR ACCOUNTING POLICIES

Please refer to Note 3 of the annual consolidated financial statements as at March 31, 2023 for more information about significant accounting policies used to prepare the financial statements.

When preparing the financial statements in accordance with US GAAP, the management of Neptune must make estimates and judgements that affect the amounts reported in the financial statements and the notes thereto. Such estimates are based on Management's knowledge of current events and actions that the Company may take in the future.

CHANGE IN ACCOUNTING PRINCIPLE

Please refer to Note 3(b) of the condensed consolidated financial statements as at June 30, 2023 for more information about changes to significant accounting policies used to prepare the financial statements.

To be consistent with the rest of the industry in which the Company is evolving, Management has decided to reclass certain costs from Selling, general and administrative expenses to Cost of sales other than impairment loss on inventories. The change has been applied retroactively to the comparative figures; there is no impact on the deficit, nor to the loss on operating activities, net loss and comprehensive loss.

CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The condensed consolidated interim financial statements are prepared in accordance with US GAAP. In preparing the condensed consolidated interim financial statements for the three-month periods ended June 30, 2023 and 2022, Management made estimates in determining transaction amounts and statement of financial position balances. Certain policies have more importance than others. We consider them critical if their application entails a substantial degree of judgment or if they result from a choice between numerous accounting alternatives and the choice has a material impact on reported results of operation or financial position. Please refer to the annual consolidated financial statements as at March 31, 2023 for more information about the Company's most significant accounting policies and the items for which critical estimates were made in the financial statements and should be read in conjunction with the notes to the consolidated financial statements for the years ended March 31, 2023 and 2022.

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.

Critical accounting estimates are:

- Estimating the expected credit losses for trade receivables

An allowance for current expected credit losses is maintained to reflect credit risk for trade accounts receivable based on a current expected credit loss model which factors in changes in credit quality since the initial recognition of trade accounts receivable based on customer risk categories. Current expected credit losses also consider collection history and specific risks identified on a customer-by-customer basis. Trade accounts receivable are presented net of allowances for current expected credit losses.

Most of the Company's customers are distributors for a given territory and are privately-held, provincially owned and publicly owned companies. The profile and credit quality of the Company's customers vary significantly. Adverse changes in a customer's financial position could cause the Company to limit or discontinue conducting business with that customer, require the Company to assume more credit risk relating to that customer's future purchases or result in uncollectible accounts receivable from that customer. Such changes could have a material adverse effect on business, consolidated results of operations, financial condition and cash flows.

The Company's extension of credit to customers involves judgment and is based on an evaluation of each customer's financial condition and payment history. From time to time, the Company will temporarily transact with customers on a prepayment basis where circumstances warrant. The Company's credit controls and processes cannot eliminate credit risk.

During the three-month period ended June 30, 2023, the Company transacted with a few new customers for which financial positions deteriorated during the year. The Company has recorded specific provisions related to these customers.

The expected credit loss for the three-month period ended June 30, 2023 was \$0.0 million and for June 30, 2022 was \$0.0 million. As at June 30, 2023, 85% of our trade receivables are past due (March 31, 2023 – 82%). We have provided for 72% of past due receivables as at June 30, 2023 (March 31, 2023– 66%). Most of the past due trade receivables are from legacy customers of B2B cannabis services revenues as well as legacy Health and Wellness customers, for which they were provided for in fiscal 2021.

Expected credit loss is subject to estimation risk and measurement uncertainty because the financial health of certain customers is difficult to predict.

- Estimating the write down of inventories

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. As necessary, the Company records write-downs for excess, slow moving and obsolete inventory. To determine these amounts, the Company regularly reviews inventory quantities on hand and compares them to estimates of historical utilization, future product demand, and production requirements. Write-downs of inventories to net realizable value are recorded in cost of sales in the consolidated financial statements.

In the quarters ended June 30, 2023 and 2022, inventories have been reduced by nil and \$3.1 million respectively, as a result of a write-down to their net realizable value, which is included in cost of sales.

The write-off of inventory for the three-month period ended June 30, 2022 was largely related to the completion of inventory write-downs of legacy Health and Wellness products as well as inventory write downs for legacy products related to the SugarLeaf facility.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Net realizable value is subject to measurement uncertainty because it can be difficult to predict market demands and timing of supply due to logistics.

- Estimating the recoverable amount of non-financial assets, to determine and measure impairment losses on goodwill, intangibles, and property, plant and equipment.

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 operating 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%.

In the third quarter of 2022 due to the Company's sustained decrease in share price, the Company concluded a triggering event occurred and performed a quantitative impairment test for the Sprout reporting unit. As part of the impairment testing process, the Company considered a number of factors including, but not limited to, current macroeconomic conditions such as inflation, economic growth, and interest rate movements, industry and market considerations, stock price performance (including performance relative to peers) and overall financial performance of the Sprout reporting unit. 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. Based on the results of the Company's third quarter 2022 impairment analysis, the estimated fair value of the Sprout reporting unit exceeded its carrying value, and no impairment was recognized.

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.

As of March 31, 2023, the Company made the following assessments:

Biodroga – As part of its annual impairment test, Management determined that the fair value of Biodroga was higher than its carrying value and thus no impairment charge was recorded for the reporting unit. The most significant assumptions used to estimate the fair values using 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 an impairment charge. Should these projections not be realized, an impairment loss may be needed in future periods. As of March 31, 2023, the assumptions used in determining the fair value were not subject to a degree of uncertainty that would have caused impairment to be recorded, as there was sufficient headroom between the fair value of the reporting unit and its carrying value.

Sprout – In 2023, as part of the annual impairment test of Sprout, Management determined that the fair value of the reporting unit was lower than its carrying amount. As a result, an impairment charge of \$18.0 million was allocated to the Sprout tradename and an impairment charge of \$19.5 million was allocated to the goodwill of Sprout. The most significant assumptions used to estimate the fair values using 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. Due to the impairment losses recorded in the second and fourth quarter of fiscal 2023, these assets are now carried at a nil value.

No event that would trigger re-evaluation of this assessment occurred during the three-month period ended June 30, 2023.

- Judgment related to the recognition period to be used in recording stock-based compensation in the June 30, 2023 condensed consolidated balance sheet that is based on market and non-market conditions (notes 11 and 13 of the condensed consolidated interim financial statements)

On July 8, 2019, the Company granted 100,000 non-market performance options under the Company stock option plan at an exercise price of \$155.05 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 approval of the amendments (grant date). These options are valued based on level 3 inputs. During the twelve-month period ended March 31, 2022, changes in estimated probability of achievement of the non-market performance conditions or the expected number of years to achieve the performance conditions resulted in a recovery of stock-based compensation recognized under this plan. None of these non-market performance options have vested as at June 30, 2023. Changes in these assumptions would impact the timing of which the expense is recognized. These options were not exercisable as at June 30, 2023 and March 31, 2023.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

On July 8, 2019, the Company granted 157,142 market performance options under the Company stock option plan at an exercise price of \$155.05 per share to the CEO, expiring on July 8, 2029. The options vest after the attainment of market performance conditions within the following ten years. The market condition was factored into the fair value. 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 revalued up to the date of approval of the amendments (grant date).

- Estimating the fair value of various financings (notes 8, 10 and 11 of the condensed consolidated interim financial statements)

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 common share and Pre-Funded Warrant and the accompanying June 2022 Common Warrants were sold together at a combined offering price of \$2.57, for aggregate gross proceeds of \$5.0 million 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.

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 exceeds the total proceeds, no consideration was allocated to the Common Shares and Pre-Funded Warrants and a loss of \$2,126,955 was immediately recognized in the net loss of the period as there were no additional rights or privileges identified. Total issue costs related to this private placement of \$465,211, was recorded under finance costs.

On October 11, 2022, the Company closed a registered direct offering ("October 2022 Direct Offering") of 3,208,557 of its Common Shares and warrants ("Series E 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 Series E 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 \$6,000,002 and net proceeds of \$5,135,002 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, which was determined using a Black-Scholes model, the Company recorded the full proceeds to liabilities, with an initial liability of \$7,029,614 and a loss on initial recognition of \$1,029,614. Because the fair value of the liability classified warrant exceeded the total proceeds, no consideration was allocated to the Common Shares. Total issue costs related to this offering of \$865,000 were recorded under finance costs.

On January 12, 2023, Neptune closed on a senior secured notes financing (such notes, the "Notes") for gross proceeds of \$4,000,000 with CCUR Holdings, Inc. and Symbolic Logic, Inc. (collectively, the "Noteholders"). Pursuant to the terms of the Notes, the Company also issued to the Noteholders warrants ("January 2023 Warrants") to purchase an aggregate of 850,000 shares of Neptune common stock, with each warrant exercisable for 5 years following the initial issuance at a price of \$0.53 per common share. The fair value of the warrants as at the date of closing was determined using a Black-Scholes model.

On March 10, 2023, Sprout issued promissory notes for gross proceeds of \$300,000 to various investors. Pursuant to the terms of those promissory notes, the Company also issued to these investors warrants ("March 2023 Warrants") to purchase an aggregate of 111,111 shares of Neptune common stock, with each warrant exercisable for 5 years following the initial issuance at a price of \$0.54 per common share. The aggregate fair value on issuance of the March 2023 Warrants was \$0.0 million.

On May 15, 2023, Neptune issued a total of 7,706,050 pre-funded warrants ("Pre-Funded Warrants"), along with 4,415,162 common shares of the Company, as part of a registered direct offering ("May 2023 Direct Offering"). Each Pre-Funded Warrant was exercisable for one Common Share. The common shares and the Pre-Funded Warrants were sold together with 12,121,212 May 2023 Warrants (the "May 2023 Warrants"). Each of the May 2023 Warrant is exercisable for one common share. Each of the common share and Pre-Funded Warrants and the accompanying May 2023 Warrants were sold together at a combined offering price of \$0.33, for aggregate gross proceeds of \$4,000,000 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 May 2023 Warrants have an exercise price of \$0.33 per share and can be exercised for a period of 5 years from the date of issuance. Proceeds of the May 2023 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 \$2,025,247 for the May 2023 Warrants. The Pre-Funded Warrants were also valued using the Black-Scholes model, resulting in \$1,255,240 relative fair value recorded under equity, and by difference, \$719,513 was allocated to the Common Shares. The Pre-Funded Warrants were exercised in part during the three-month period ended June 30, 2023 for gross proceeds of \$541. Total issue costs related to this direct offering were of \$758,628, of which \$136,461 were recorded under common stock, \$238,065 were recorded under equity warrants and \$384,102 were recorded under finance costs.

- Estimating the fair value of bonus-based on market conditions (note 13(c) of the consolidated financial statements)

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. The incentive is being recognized over the estimated period to reach the market capitalization. The risk-neutral Monte-Carlo simulation uses level 3 inputs. The assumptions used in the simulation include a risk free-rate of 3.81% and a volatility of 86.88% for the three-month period ended June 30, 2023 (respectively 2.98% and 70.32% for the three-month period ended June 30, 2022). An increase or decrease in the volatility assumption significantly impacts the fair value of the long-term incentive.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

- Judgment related to revenue recognition in determining whether the Company is the principal or the agent for the arrangements with suppliers of products the Company does not manufacture.

The Company may be involved with other parties, including suppliers of products, in providing goods or services to a customer when it enters into revenue transactions for the sale of products that it does not manufacture. In these instances, the Company must determine whether it is a principal in these transactions by evaluating the nature of its promise to the customer. The Company is a principal and records revenue on a gross basis if it controls a promised good before transferring that good to the customer. On the other hand, the Company records revenue as the net amount when it does not meet the criteria to be considered a principal.

CHANGES IN ACCOUNTING POLICIES AND FUTURE ACCOUNTING CHANGES

The accounting policies and basis of measurement applied in the condensed consolidated interim financial statements for the three-month periods ended June 30, 2023 and 2022 are the same other than as disclosed, if any, in note 3 to the condensed consolidated interim financial statements.

As a result of a significant portion of its revenues, expenses, assets and liabilities being denominated in US dollars and the increasing American scope of its operations, Neptune changed its functional currency from Canadian dollars ("CAD") to U.S. dollars ("USD"), effective October 1, 2022. This change in functional currency has been applied prospectively from the date of the change.

ISSUED AND OUTSTANDING SECURITIES

The following table details the number of issued and outstanding securities as at the date of this MD&A:

	Number of Securities Issued and Outstanding
Common shares	24,117,599
Share options	595,295
Deferred share units	4,308
Restricted share units	2,789
Warrants	24,387,821
Total number of securities	49,107,812

The Company's common shares are being traded on NASDAQ Capital Market under the symbol "NEPT". Effective August 15, 2022, the Company's common shares no longer trade on the TSX. Each option, restricted share, restricted share unit, deferred share unit and warrant is exercisable into one common share to be issued from the treasury of the Company.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

We are a smaller reporting company as defined by Rule 12b-2 of the Exchange Act, and are not required to provide the information otherwise required under this item.

ITEM 4. CONTROLS AND PROCEDURES.

INTERNAL CONTROLS DISCLOSURE

Disclosure Controls and Procedures ("DC&P") and Internal Control Over Financial Reporting ("ICFR")

As required by applicable rules of the SEC, Management is responsible for the establishment and maintenance of DC&P and ICFR. Our DC&P and ICFR has been designed based on the 2013 Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the "COSO Framework") to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with US GAAP. Regardless of how well the DC&P and ICFR are designed, internal controls have inherent limitations and can only provide reasonable assurance that the controls are providing reliable financial reporting information in accordance with US GAAP. These inherent limitations include, but are not limited to, human error and circumvention of controls and as such, there can be no assurance that the controls will prevent or detect all misstatements due to errors or fraud, if any.

Evaluation of DC&P

The Chief Executive Officer (CEO) and the Chief Financial Officer (CFO), with assistance from other members of management, have evaluated the design and effectiveness of our Disclosure Controls and Procedures as of June 30, 2023 and, based on their evaluation, have concluded that the Disclosure Controls and Procedures were not effective as of that date due to material weaknesses disclosed below.

Internal controls over financial reporting ("ICFR")

Management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) of the Exchange Act. Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of our financial statements for external purposes in accordance with US GAAP.

Internal control systems, no matter how well designed, have inherent limitations, including the possibility of human error or overriding of controls. Because of the inherent limitations, only reasonable assurance with respect to financial statement preparation and presentation can be provided and misstatements may not be prevented or detected. Management evaluated the design and effectiveness of the Company's internal control over financial reporting as of June 30, 2023 using the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control Integrated Framework 2013. Based on its evaluation, management concluded that our internal control over financial reporting was not effective as of June 30, 2023 due to material weaknesses in our internal control over financial reporting. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of annual or interim financial statements will not be prevented or detected on a timely basis.

Consistent with June 30, 2022, the Company did not effectively design, implement and operate effective process-level control activities related to its key processes (such as the financial reporting process (including consolidation and journal entries), the purchase to pay process (including cutoff), the inventory process, the order to cash process and the equity process (financial instruments and stock-based compensation), account level assertions and disclosures, including entity level controls and information technology general controls ("ITGCs").

Further, there were inadequate controls over user and privileged access to information technology (IT) systems for multiple components to adequately restrict access to appropriate finance and IT personnel and enforce appropriate segregation of duties. As a result, process-level automated control activities and manual control activities that are dependent upon information derived from IT systems were also ineffective. The pervasive nature of these deficiencies contributed to the other material weaknesses below:

- Inadequate oversight processes and procedures to guide individuals in applying internal control over financial reporting to prevent or timely detect material accounting errors and ensuring adherence to applicable accounting standards;
- Ineffective risk assessment process, including (i) potential for fraud and (ii) identification and assessment of changes in the business that could impact our system of internal controls;
- Ineffective design and implementation of control activities, general controls over technology and deployment of policies and procedures;
- Relevant and quality information to support the functioning of internal controls was not consistently generated, used, or reviewed by the Company;
- The Company did not sufficiently select, develop, and perform ongoing evaluations to determine that components of internal control are present and functioning;
- The evaluation and communication process of internal control deficiencies was not timely;
- Inability to prepare on a timely basis the financial statements, supporting accounting records and account reconciliations; and
- Lack of sufficient complement of personnel with an appropriate level of knowledge and experience.
- Lack of review of the information communicated to management's expert and the impairment analysis performed by management's expert.

As a result of these deficiencies, material misstatements were identified and corrected in the consolidated financial statements as of and for the year ended March 31, 2023. Because there is a reasonable possibility that material misstatement of the consolidated financial statements will not be prevented or detected on a timely basis, we concluded the deficiencies represent material weaknesses in our internal control over financial reporting and our internal control over financial reporting was not effective as of June 30, 2023.

Our CEO and CFO have taken additional steps to support that the financial statements as of and for the three-month period ended June 30, 2023 are presented fairly in accordance with US GAAP.

Changes in ICFR

For the quarter ended June 30, 2023, the Company has concluded that there were no changes in its ICFR that has materially affected or is reasonably likely to materially affect the Company's ICFR for the three-month period ended June 30, 2023.

We are a non-accelerated filer under the Exchange Act and not required to comply with the auditor attestation requirements of Section 404(b) of the Sarbanes-Oxley Act of 2002. Therefore, this quarterly report does not include an attestation report of our registered public accounting firm regarding our management's assessment of internal control over financial reporting.

Remediation Plan

Beginning during the year ended March 31, 2021, and under the direction of our CEO and CFO, we have been developing a comprehensive plan to remediate the identified material weaknesses. We began implementing certain measures as part of the remediation plan including: (i) development of a detailed remediation plan addressing the material weaknesses related to the control environment, risk assessment and monitoring, (ii) institution of policies and processes to support the functioning of internal controls over financial reporting, (iii) design of a comprehensive risk assessment process, (iv) process level and IT general controls design enhancement and (v) hiring of individuals with appropriate skills and experience.

The turnover in accounting personnel experienced in the last twelve months has delayed the implementation of the remediation plan. We remain committed to the identification, design and implementation of steps still needed to remediate the material weaknesses in our internal controls and to ensure that our internal controls over financial reporting will be designed and operating effectively by:

- Addressing the material weaknesses related to information and communication.
- Continuing to institute policies and processes to support the functioning of internal controls over financial reporting.
- Implementing a comprehensive and continuous risk assessment process to identify and assess risks of material misstatement (including fraud risks).
- Ensuring the proper implementation and operating effectiveness of process-level and IT general controls that support automated and manual control activities.
- Establishing an adequate reporting structure to ensure authority guidelines and reinforcing communications protocols, including required information and expectations, to enable personnel to carry out their responsibilities and producing accurate financial reports.
- Reinforcing internal control and financial reporting expertise across the organization.
- Holding individuals accountable for their role related to internal control and providing continuous training.
- Designing and implementing additional monitoring controls to assess the consistent operation of controls and to remediate deficiencies in a timely manner.

The material weaknesses being addressed by the above-mentioned remediation plan will not be considered remediated until the applicable controls operate for a sufficient period of time, and management concludes, through testing, that these controls are operating effectively. This has not occurred to date.

Although we have commenced the remediation process and intend to complete it as promptly as possible, we cannot estimate how long it will take to remediate these material weaknesses. In addition, new material weaknesses may be discovered that require additional time and resources to remediate. Until the remediation is complete, we plan to continue to perform additional analyses and other procedures to ensure that our consolidated financial statements are prepared in accordance with US GAAP.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

The Company is engaged from time-to-time in various legal proceedings and claims. The outcome of such proceedings and claims against the Company is subject to future resolution, including the uncertainties of litigation. Regardless of the outcome, resolving legal proceedings and other disputes can have an adverse impact on us because of legal costs, diversion of management's time and resources, and other factors.

Refer to Note 16, "Commitments and Contingencies," of our condensed consolidated interim financial statements in Part I, Item 1 within this Quarterly Report, for further information on our legal proceedings.

ITEM 1A. RISK FACTORS.

An investment in our common shares, or in securities convertible into or exchangeable for our common shares, involves a high degree of risk. You should carefully consider the risks described below, together with all of the other information included in this Quarterly Report, as well as in our other filings with the SEC, in evaluating our business. If any of the following risks actually occur, our business, financial condition, operating results and future prospects could be materially and adversely affected. In that case, the trading price of our common stock may decline and you might lose all or part of your investment. The risks described below are not the only ones we face. Additional risks that we currently do not know about or that we currently believe to be immaterial may also impair our business, financial condition, operating results, liquidity, and future prospects. Certain statements below are forward-looking statements. For additional information, see Item 2, Management's Discussion and Analysis of Financial Condition and Results of Operations of this Quarterly Report.

During the three-month ended June 30, 2023, except as set forth below there were no material changes to the risks and uncertainties described in Part I, Item 1A, "Risk Factors," of our Annual Report on Form 10-K.

The terms of our indebtedness restrict our current and future operations, particularly our ability to respond to changes or to take certain actions.

The Note Purchase Agreement, as amended (the "Note Purchase Agreement"), governing the promissory notes (the "2023 Notes") that we issued on January 12, 2023 contain a number of restrictive covenants, including covenants related to financial statement filing deadlines, that impose significant operating and financial restrictions on us and may limit our ability to engage in acts that may be in our long-term best interest, including restrictions on our ability to incur liens, make investments, loans, advances and acquisitions, incur additional indebtedness or guarantees, pay dividends on capital stock or redeem, repurchase or retire capital stock, engage in transactions with affiliates, sell assets, including capital stock of our subsidiaries, alter the business we conduct, alter their organizational documents, and consolidate or merge.

We defaulted on the conditions of the Note Purchase Agreement and entered into a Waiver and First Amendment to the Notes (the "First Waiver Agreement") on March 9, 2023. The First Waiver Agreement waives certain administrative, regulatory and financial statement related covenants as required by the terms of the Notes. Furthermore, in connection with the First Waiver Agreement, the Notes were amended to provide that the Purchasers shall be paid an exit fee in the aggregate amount of \$200,000, payable as follows: (i) on or prior to May 15, 2023, \$100,000 and (ii) on the Maturity Date (as defined in the Note Purchase Agreement), \$100,000 and the interest rate has increased to 24% for a period extending until the Company meets specified criteria in the First Waiver Agreement.

On May 22, 2023, the Company entered into a Waiver and Second Amendment to Note Purchase Agreement (the "Waiver Agreement"), with CCUR Holdings, Inc. and the purchasers named therein, related to the Note Purchase Agreement dated as of January 12, 2023 (see Note 13 to the consolidated financial statements as at and for the year ended March 31, 2023). The Waiver Agreement provides that the required prepayment of \$2.0 million (the "Mandatory Prepayment"), due as of May 15, 2023, is waived, in part, until July 31, 2023, or for an additional thirty days thereafter if the Company has filed a Registration on Form S-1 with the Securities and Exchange Commission by July 31, 2023. Pursuant to the Waiver Agreement, the Company was required to pay, and has paid, \$1.0 million of the Mandatory Prepayment. For the period beginning on March 31, 2023, through and including the date that the entire Mandatory Prepayment, including interest and fees is paid, interest on the sum of the outstanding principal amounts will accrue at the rate of twenty four percent (24%) per annum. Thereafter, interest will revert to the rate otherwise provided under the Note Purchase Agreement. The Company also agreed to pay an extension fee in an aggregate amount of \$138,606, which was added to the principal amount due.

A breach of the covenants under the Note Purchase Agreement, or any replacement facility, could result in an event of default under the applicable indebtedness, unless we obtain a waiver to avoid such default. If we are unable to obtain a waiver, such an event of default may allow the creditors to accelerate the related debt and may result in the acceleration of or default under any other debt to which a cross-acceleration or cross-default provision applies. In the event that we breach one or more covenants, our lender may declare an event of default and require that we immediately repay all amounts outstanding, terminate any commitment to extend further credit and foreclose on the collateral granted to it to collateralize such indebtedness. The occurrence of any of these events could restrict our operations, which could have a material adverse effect on our business, financial condition and results of operations. In the event our lenders accelerate the repayment of our borrowings, we and our subsidiaries may not have sufficient assets to repay that indebtedness. If we are not able to pay our debts as they become due, we will be required to pursue one or more alternative strategies, such as refinancing or restructuring our indebtedness, selling assets or selling additional debt or equity securities. We may not be able to refinance our debt or sell additional debt or equity securities or our assets on favorable terms, if at all, and if we must sell our assets, it may negatively affect our ability to generate revenues.

While the Note Purchase Agreement was amended to provide for a waiver of certain defaults, there can be no guarantee that we will not breach covenants in the Note Purchase Agreement or the 2023 Notes in the future. In the event that we breach one or more covenants, our lender may declare an event of default, increase the interest rate to 24% and require that we immediately repay all amounts outstanding, terminate any commitment to extend further credit and foreclose on the collateral granted to it to collateralize such indebtedness. The occurrence of any of these events could restrict our operations, which could have a material adverse effect on our business, financial condition and results of operations.

There is currently no established public trading market for the Warrants.

There is no established public trading market for the Warrants, and we do not expect such a market to develop. In addition, we do not plan on making an application to list the Warrants on the Nasdaq, or any other securities exchange or other trading system. This may affect the pricing of the Warrants in the secondary market, the transparency and availability of trading prices, the liquidity of the Warrants, and the extent of issuer regulation. Except in limited circumstances specified in the Warrants, holders of the Warrants will not be entitled to any voting rights, dividends or other rights as shareholders of the Company, prior to the exercise of their Warrants. If the price of the Common Shares does not exceed the exercise price of the Warrants during the period when the Warrants are exercisable, the Warrants may not have any value.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

Not applicable.

ITEM 4. MINE SAFETY DISCLOSURES.

Not applicable.

ITEM 5. OTHER INFORMATION.

Not applicable.

ITEM 6. EXHIBITS.

Refer to Part I, "Consolidated Financial Statements," on page F-1 within this Quarterly Report for our Consolidated Financial Statements.

EXHIBIT INDEX

Exhibit No.	Description of Exhibit
10.1*	Summary Restructuring Term Sheet, dated August 16, 2023, between the Company and NH Expansion Credit Fund Holdings L.P.
31.1*	Certification by Principal Executive Officer under Section 302 of the Sarbanes-Oxley Act of 2002
31.2*	Certification by Principal Financial and Accounting Officer under Section 302 of the Sarbanes-Oxley Act of 2002
32**	Certification pursuant to 18 U.S.C. Section 1350, adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, as amended
101.INS*	Inline XBRL Instance Document – the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document
101.SCH*	Inline XBRL Taxonomy Extension Schema Document
101.CAL*	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104*	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

* Filed herewith

** Furnished herewith

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

Neptune Wellness Solutions Inc.

Date: August 17, 2023

By: /s/ Michael Cammarata

Michael Cammarata

President, Chief Executive Officer and Director

(Principal Executive Officer)