

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934For the quarterly period ended December 31, 2023
OR☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM TO

Commission File Number 001-33526

NEPTUNE WELLNESS SOLUTIONS INC.

(Exact name of Registrant as specified in its Charter)

Québec
(State or other jurisdiction of
in Company or organization)
545 Promenade du Centropolis, Suite 100
Laval, Québec Canada
(Address of principal executive offices)Not Applicable
(I.R.S. Employer
Identification No.)H7T 0A3
(Zip Code)

Registrant's telephone number, including area code: (450) 687-2262

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common shares, no par value	NEPT	Nasdaq Capital Market

Indicate by check mark whether the Registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☐ No ☒

Indicate by check mark whether the Registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	☐	Accelerated filer	☐
Non-accelerated filer	☒	Smaller reporting company	☒
Emerging growth company	☐		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☐

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the Registrant, based on the closing price of the shares of common stock on The NASDAQ Stock Market on February 15, 2024, was \$1,586,213.

The number of shares of Registrant's Common Stock outstanding as of February 15, 2024 was 4,532,038.

DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q ("Quarterly Report" or "Form 10-Q") contains or incorporates by reference certain information and statements that may constitute forward-looking information within the meaning of Canadian securities laws and forward-looking statements within the meaning of U.S. federal securities laws, both of which we refer to as forward-looking statements, including, without limitation, statements relating to certain expectations, projections, new or improved product introductions, market expansion efforts, and other information related to our business strategy and future plans. Forward-looking statements can, but may not always, be identified by the use of words such as "seek", "anticipate", "plan", "continue", "estimate", "expect", "may", "will", "project", "predict", "potential", "targeting", "intend", "could", "might", "would", "should", "believe", "objective", "ongoing", "assumes", "goal", "likely" and similar references to future periods or the negatives of these words and expressions and by the fact that these statements do not relate strictly to historical or current matters. The statements we make regarding the following matters are forward-looking by their nature and are based on certain of the assumptions noted below. Forward-looking statements in this Quarterly Report may include, but are not limited to, statements about expectations regarding being subject to taxation in both Canada and the United States; our ability to obtain additional financing in the future and continue as a going concern; uncertainties related to general economic, political, business, industry, and market conditions, including the ongoing COVID-19 pandemic and military conflict between Russia and Ukraine, inflationary pressures, and geopolitical conflicts, the anticipated benefits from the divestiture of our cannabis business, our estimates regarding expenses, future revenues, capital requirements and needs for additional financing; our expectations regarding potential pursuit of strategic acquisitions, joint venture or partnerships, our ability to retain members of our management team and our employees; competition existing today or that will likely arise in the future; and our ability to satisfy the continued listing requirements of the Nasdaq or any other exchange on which our securities may trade on.

These forward-looking statements are based on management's current expectations and are subject to a number of risks, uncertainties, and assumptions, including market and economic conditions, the effect of the COVID-19 pandemic, business prospects or opportunities, future plans and strategies, projections, technological developments, anticipated events and trends and regulatory changes that affect us, our customers and our industries. Although the Company and management believe that the expectations reflected in such forward-looking statements are reasonable and based on reasonable assumptions and estimates, there can be no assurance that these assumptions or estimates are accurate or that any of these expectations will prove accurate. Forward-looking statements are inherently subject to significant business, economic and competitive risks, uncertainties and contingencies that could cause actual events to differ materially from those expressed or implied in such statements.

Undue reliance should not be placed on forward-looking statements. Actual results and developments are likely to differ, and may differ materially, from those anticipated by the Company and expressed or implied by the forward-looking statements contained or incorporated by reference in this Quarterly Report. Such statements are based on a number of assumptions and risks that may prove to be incorrect, including, without limitation, assumptions about:

- our ability to successfully manage our liquidity and expenses, and continue as a going concern;
- the anticipated benefits of the divestiture of our cannabis business;
- our ability to maintain customer relationships and demand for our products;
- the impact of current and future substantial litigation, investigations and proceedings;
- the overall business and economic conditions;
- the potential financial opportunity of our addressable markets;
- the competitive environment;
- the protection of our current and future intellectual property rights;
- our ability to recruit and retain the services of our key personnel;
- our ability to develop commercially viable products;
- our ability to pursue new business opportunities;
- our ability to obtain financing on reasonable terms or at all;
- our ability to integrate our acquisitions and generate synergies; and
- the impact of new laws and regulations in Canada, the United States or any other jurisdiction in which we currently do or intend to do business.

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Certain forward-looking statements contained herein and incorporated by reference concerning the Company's business and operations are based on estimates prepared by the Company using data from publicly available governmental sources as well as from market research and industry analysis and on assumptions based on data and knowledge of the industry in which the Company operates which the Company believes to be reasonable. However, although generally indicative of relative market positions, market shares and performance characteristics, such data is inherently imprecise. While the Company is not aware of any misstatement regarding any industry or government data presented herein, the industry in which the Company operates involves risks and uncertainties and is subject to change based on various factors. Many factors could cause our actual results, level of activity, performance, achievements, future events or developments to differ materially from those expressed or implied by forward-looking statements, including, without limitation, the factors discussed under "Risk Factors" in the Annual Report on Form 10-K for the year ended March 31, 2023. In particular, you should consider the following risks that could cause our actual results and financial condition to differ materially from those indicated in the forward-looking statements:

- our inability to achieve the anticipated benefits of the divestiture of our cannabis business;
- our inability to continue as a going concern;
- geopolitical events, such as terrorism, war or other military conflict, including increased uncertainty regarding the ongoing hostility between Russia and the Ukraine and the related impact on macroeconomic conditions as a result of such conflict;
- changes in our industry;
- increased competition within the industries that we operate, particularly the nutraceutical and organic foods and beverages industries;
- changes in laws and/or government regulations affecting our business, including tax laws;
- the political environments in the U.S. and Canada;
- the COVID-19 pandemic and the efforts to mitigate its effects;
- systems failures or cybersecurity incidents;
- exposure to current and future claims and litigation, including product liability claims;
- exposure to currency fluctuations and restrictions as well as credit risks;
- potential significant increases in tax liabilities;
- product liability claims;
- our inability to attract or retain key personnel or additional employees required for the development and future success of our business;
- our inability to protect our intellectual property rights;
- changes in intellectual property laws;
- our inability to obtain adequate insurance coverage;
- our reliance on sales to a limited number of customers;
- our failure to maintain any regulatory approvals, licenses and/or permits required for operating our business;
- adverse actions by governmental bodies that regulate our products, business or operations;
- our inability to maintain our liquidity position and manage expenses; and
- our failure to comply with, or remedy deficiencies with, the listing standards of Nasdaq or other securities exchanges on which our Common Shares are listed and trade.

There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those expressly or implied expected or estimated in such statements. Shareholders and investors should not place undue reliance on forward-looking statements as the plans, intentions or expectations upon which they are based might not occur. Although the Company cautions that the foregoing list of risk factors, as well as those risk factors presented under the heading "Risk Factors" and elsewhere in this Quarterly Report, are not exhaustive, shareholders and investors should carefully consider them and the uncertainties they represent and the risks they entail. The forward-looking statements contained in this Quarterly Report are expressly qualified in their entirety by this cautionary statement. Unless otherwise indicated, forward-looking statements in this Quarterly Report describe our expectations as of the date of this Quarterly Report and, accordingly, are subject to change after such date. We do not undertake to update or revise any forward-looking statements for any reason, except as required by applicable securities laws.

RISKS FACTORS SUMMARY

Set forth below is summary of some of the principal risks the Company faces:

Risks Relating to our Business and Industry:

- We are exposed to risks associated with the divestiture of our cannabis business.
- The terms of our indebtedness restrict our current and future operations, particularly our ability to respond to changes or to take certain actions.
- If we do not manage our supply chain effectively or if there are disruptions in our supply chain, our business and results of operations may be adversely affected.
- Our future results of operations may be adversely affected by input cost inflation.
- Our future results of operations may be adversely affected by the availability of natural and organic ingredients.
- We may not be successful in achieving savings and efficiencies from cost reduction initiatives and related strategic initiatives.
- COVID-19 has and will continue to impact our operations and could have a material adverse effect on our business, results of operations and financial condition.
- Increasing awareness of health and wellness are driving changes in the consumer products industry, and if we are unable to react in a timely and cost-effective manner, our results of operations and future growth may be adversely affected.
- Markets for our products and services are highly competitive, and we may be unable to compete effectively.
- We may be unable to manage our growth effectively.
- We depend on significant customers for a substantial portion of our revenue. If we fail to retain or expand our customer relationships or significant customers reduce their purchases, our revenue could decline significantly.
- Significant interruptions in our access to certain supply chains, for key inputs such as raw materials, electricity, water, and other utilities may impair our operations.
- Our future success depends on the sales of our consumer products and turnkey solutions products.
- Our activities rely on certain third-party suppliers, contract manufacturers and distributors, and such reliance may adversely affect us if the third parties are unable or unwilling to fulfill their obligations.
- Our products may be subject to recalls for a variety of reasons, which could require us to expend significant management and capital resources.
- We may not meet timelines for project development.
- Product contamination or tampering or issues or concerns with respect to product quality, safety and integrity could adversely affect our business, reputation, financial condition or results of operations.
- We may have difficulty obtaining insurance to cover our operational risks and, even where available, may not be sufficient to cover losses we may incur.

Risks Relating to Our Accounting and Financial Policies

- Our consolidated financial statements have been prepared on a going concern basis, our management believes that our recurring losses and negative cash flows from operations and other factors have raised substantial doubt about our ability to continue as a going concern.
- We have recorded significant long-lived asset impairment charges and may be required to record additional charges to future earnings if our long-lived assets become impaired further.

Risks Relating to Our Liquidity

- We are actively managing our liquidity and expenses, including by extending payables due and reducing investment in our businesses, and it is not certain that we will be ultimately successful in developing our business and continuing as a going concern.
- As a result of our failure to timely file our Annual Report on Form 10-K for the quarter ended March 31, 2023, we are currently ineligible to file new short form registration statements on Form S-3, which may impair our ability to raise capital on terms favorable to us, in a timely manner or at all.
- We may have difficulty accessing public and private capital and banking services, which could negatively impact its ability to finance its operations.
- The issuance and sale of common shares upon exercise of outstanding warrants may cause substantial dilution to existing shareholders and may also depress the market price of our common shares. Outstanding warrants to purchase shares of our common stock have cashless exercise rights.
- A large portion of our outstanding shares of common stock are currently held in a class action settlement fund, and the sale, distribution or disposition of these shares could result in one or more shareholders obtaining a significant ownership stake in the common stock of the Company.

Legal and Regulatory Risks Relating to Our Business

- We identified material weaknesses in our internal control over financial reporting. This may adversely affect the accuracy and reliability of our financial statements and, if we fail to maintain effective internal control over financial reporting, it could impact our reputation, business, and the price of our common shares, as well as lead to a loss of investor confidence in us.
- As a non-accelerated filer, we are not required to comply with the auditor attestation requirements of the Sarbanes-Oxley Act.
- The Company may be classified as a “passive foreign investment company” for U.S. federal income tax purposes, which would subject U.S. investors that hold the Company’s Common Shares to potentially significant adverse U.S. federal income tax consequences.
- We are subject to laws and regulations and guidelines, including the Food, Drug, and Cosmetic Act in the United States and regulations and guidance promulgated thereunder, changes in which could increase our costs and individually or in the aggregate adversely affect our business.
- We are subject to risks inherent to the nutraceutical industry.
- We are subject to anti-money laundering laws and regulations in multiple jurisdictions.
- Our inability to maintain our regulatory approvals and permits could adversely affect our business and financial results.
- We are currently, and may in the future be, subject to substantial litigation, investigations and proceedings that could cause us to incur significant legal expenses and result in harm to our business.

Risks Relating to Our Human Resources

- We may be unable to attract or retain key personnel, and we may be unable to attract, develop and retain additional employees required for our development and future success.
- We face exposure to fraudulent or illegal activity by officers, directors, employees, contractors, consultants and agents, which may subject us to investigations and legal actions.

Risks Relating to Our Information Technology

- We must successfully maintain and/or upgrade our information technology systems, and our failure to do so could have a material adverse effect on our business, financial condition or results of operations.
- We may be exposed to risks and costs associated with security breaches, data loss, credit card fraud and identity theft that could cause us to incur unexpected expenses and loss of revenue as well as other risks.

Risks Relating to Our Intellectual Property

- Our commercial success depends, in part, on our intellectual property rights and a failure by us to protect our intellectual property may have a material adverse effect on our ability to develop and commercialize our products.

Risks Relating to Ownership of Our Common Shares

- We do not currently intend to pay any cash dividends on our Common Shares in the foreseeable future.
- If there is insufficient liquidity in our Common Shares, it could adversely affect your ability to sell your shares.
- There is currently no established public trading market for the Warrants.
- U.S. investors may be unable to enforce certain judgments against us in Canada.
- Certain Canadian laws could delay or deter a change of control.
- Our failure to meet the continued listing requirements of Nasdaq could result in a de-listing of our Common Shares.
- Our shareholders may be subject to dilution resulting from future offerings of Common Shares by us.
- Our constating documents permit us to issue an unlimited amount of additional Common Shares or Preferred Shares, which may prevent a third-party takeover or cause our shareholders to experience dilution in the future.
- Because the Company is a “smaller reporting company,” we may take advantage of certain scaled disclosures available to us, resulting in holders of our securities receiving less Company information than they would receive from a public company that is not a smaller reporting company.
- Any acquisitions, strategic investments, divestitures, mergers, or joint ventures we make may require the issuance of a significant amount of equity or debt securities and may not be successful.
- We have reported negative cash flows from operating activities and may do so in future periods.
- We may not be able to maintain our operations without additional funding.
- We are subject to foreign currency fluctuations, which could adversely affect our financial results.

General Risk Factors

- Catastrophic events outside of our control, including pandemics, may harm our results of operations or damage our facilities.
- The market price of the Company’s Common Shares may be highly volatile.

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In this Quarterly Report on Form 10-Q, all dollar amounts are in United States Dollars unless otherwise indicated.

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.

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.

On September 18, 2023, the Company announced that after careful consideration and evaluation of potential strategic alternatives to enhance the Company's value, the Board of Directors has approved a plan to proceed with a spinout to Neptune shareholders of a majority of its equity interest in Sprout. Also, on January 24, 2024, the Company announced the appointment of Stifel Nicolaus Canada Inc. ("Stifel") to act as exclusive financial advisor to the Sprout, providing financial advisory, investment banking services, and strategic advice regarding the review of divestiture alternatives related to Sprout.

On November 20, 2023, the Company announced it had entered into a non-binding Letter of Intent ("LOI") to acquire Datasys Group, Inc., ("Datasys") and affiliated companies. The non-binding LOI establishes the framework for a potential transaction (the "Proposed Transaction") whereby Neptune would acquire all the outstanding equity of Datasys, subject to due diligence, final board approval, shareholder approval and additional terms and conditions. Datasys is a leading data-marketing company that utilizes artificial intelligence and machine learning to derive intelligence from one of the largest consumer and business data sets in the world. For various reasons uncovered during the diligence process, the Company has concluded that it is no longer viable to pursue the Proposed Transaction on the terms contemplated in the LOI. Neptune and Datasys are currently in discussions regarding a revised transaction structure and continue to negotiate in good faith to explore all possible avenues to reach an amicable partnership.

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®. 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.

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 or 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 February 15, 2024, we had approximately \$0.3 million in cash and cash equivalents. We believe our current cash position will be sufficient to operate our business for approximately one month 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 reduction 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, May 2023 and September 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. We entered into a second receivables and inventory factoring facility in November 2023. On October 10, 2023, the Company completed the repayment of the senior secured notes issued in January. Taking into account all considerations, we believe these actions are in the best interest of the company and will benefit shareholders.

Closing of a \$4,500,000 Registered Direct Offering

On September 21, 2023, the Company announced the pricing of its public offering of 1,800,000 of its common shares (or common share equivalents in lieu thereof) and accompanying warrants to purchase up to an aggregate of 1,800,000 common shares at a combined public offering price of \$2.50 per share and accompanying warrant, resulting in gross proceeds of approximately \$4.5 million. The warrants have an exercise price of \$2.50 per share, are immediately exercisable upon issuance and will expire five years following the date of issuance. The closing of the offering occurred on September 26, 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 478,132 common shares that were previously issued in October 2020, February 2021, March 2022, June 2022, October 2022 and May 2023, at exercise prices ranging from US\$13.20 to US\$3,150 per share with expiration dates ranging from October 22, 2025 to June 23, 2029, will be amended effective upon the closing of the offering, to reduce the exercise prices of the applicable warrants to US\$2.50, with expiration dates five years following the closing of the offering, with the exception of warrants to purchase up to 24,320 common shares which will expire on June 23, 2029. These amendments supersede those made on May 15, 2023.

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

On May 11, 2023, the Company announced the pricing of its public offering of 192,652 of its common shares (or common share equivalents in lieu thereof) and accompanying warrants to purchase up to an aggregate of 192,652 common shares at a combined public offering price of \$13.20 per share and accompanying warrant, resulting in gross proceeds of approximately \$4.0 million. The warrants have an exercise price of \$13.20 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 210,594 common shares that were previously issued in March 2022, June 2022, and October 2022, at exercise prices ranging from \$64.80 to \$448.00 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 \$13.20, 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 24,320 common shares which will expire on June 23, 2029 as currently contemplated.

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

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. On November 6, 2023, the note was further amended, with the maturity date extended to June 30, 2025 and now bears interest at the rate of 15.0% per annum to June 30, 2024, payable in kind, and 7.5% per annum, payable in kind, and 7.5% per annum payable in cash, from and after June 30, 2024.

Receivable and Inventory Financings

On November 17, 2023, Biodroga Nutraceuticals Inc. ("Biodroga"), a subsidiary of the Company, executed an Invoice Purchase and Sale Agreement (the "PSA") with Alterna Capital Solutions LLC (the "Lender"), dated November 8, 2023, providing for the purchase by the Lender of certain of Biodroga's accounts receivable. Pursuant to the PSA, Biodroga agreed to sell eligible accounts receivable to the Lender for an amount equal to the face amount of each account receivable less a reserve percentage. In connection with the PSA, Biodroga and Alterna also executed an Inventory Finance Rider (the "Rider"), dated November 8, 2023, providing for advances by Alterna secured by the inventory of Biodroga. Subject to the Lender's discretion and the terms and conditions of the Rider and the PSA, the Lender may make advances to Biodroga of an aggregate amount up to and not to exceed, as of any date of determination of (i) 75% of Eligible Inventory (as defined in the Rider) valued at the lower of cost or market value, or (ii) 75% of the net orderly liquidation value of the Eligible Inventory. The maximum amount potentially available to be deployed by the Lender at any given time pursuant to the PSA and Rider is \$3 million, which may be increased in \$1 million increments up to a maximum of \$8 million in accordance with the terms of the PSA. The PSA and Rider provide for the payment of fees by Biodroga, including a funds usage fee of prime plus 1% with a minimum interest rate of 9.5% per annum, and includes customary representations and warranties, indemnification provisions, covenants and events of default. The PSA and Rider provide for an initial twelve (12) month term, followed by automatic annual renewal terms unless Biodroga provides written notice pursuant to the PSA prior to the end of any term. In connection with the PSA, the Company delivered a Commercial Guaranty (the "Parent Guaranty") to the Lender, guaranteeing the prompt payment and performance of the liabilities and obligations of Biodroga to the Lender under the PSA.

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. On October 13, 2023, the Company announced it has prepaid in full its senior secured notes with CCUR Holdings, Inc. and Symbolic Logic, Inc., after a payment of approximately \$2.3 million.

Arbitrator Award

On August 23, 2023, an arbitrator awarded PMGSL \$2.2 million as well as certain attorneys' fees and expenses, totaling in the aggregate approximately \$4.0 million, which includes pre-award interest. While the arbitrator dismissed PMGSL's primary claim seeking damages in the high eight figures, the arbitrator found that Neptune failed to provide administrative assistance in removing legends on common shares issued to PMGSL and failed to pay severance to Peter Galloway upon his termination from the Company. Neptune's claims against PMGSL were dismissed. The award was required to be paid by the Company by September 29, 2023, and if unpaid will accrue post-award interest at 10.5% per annum simple interest until payment. The award was made pursuant to a binding arbitration arising from a previously disclosed dispute under the Asset Purchase Agreement between the Company and PMGSL in connection with the Company's acquisition of SugaLleaf Labs, Inc. The Company strongly disagrees with this award and intends to challenge it in the appropriate forum. Based on currently available information a provision of \$4.2 million and \$0.6 million has been recognized for this case as of December 31, 2023 and March 31, 2023, respectively.

Restructuring Agreement and Exchange of Sprout Debt

On November 3, 2023, the Company, NH Expansion Credit Fund Holdings LP ("MSEC") and Sprout Foods, Inc. entered into a Restructuring Agreement (the "Restructuring Agreement") relating to the conversion of certain debts owed by Sprout to Neptune into shares of common stock of Sprout, in accordance with the terms of a previously disclosed Exchange option. Following the Restructuring Agreement, Neptune announced on November 8, 2023 that it has effectively converted a substantial portion of Neptune's Sprout debt into Sprout equity. In accordance with the terms of the previously announced Exchange option, Sprout debt was exchanged for Sprout equity resulting in Neptune having increased Sprout ownership from 50.1% to approximately 89.5%. The debt exchange will significantly improve the strategic positioning for both entities, decreasing expenses, removing Neptune as guarantor for Sprout's promissory notes, and subject to third party consents, Sprout becoming an independent trading entity. In connection with the Restructuring Agreement, a portion of the debt was transferred to MSEC and converted into shares of Sprout common stock, and MSEC was further granted warrants to purchase up to 92,495 common shares of the Company at an exercise price of \$0.01 per share, expiring April 7, 2028. In addition, Sprout and MSEC entered into a Third Amended and Restated Secured Promissory Note (the "Secured Promissory Note"), amending and restating that certain Second Amended and Restated Secured Promissory Note previously issued by Sprout in favor of MSEC, to reflect, among other things, that Neptune's guaranty of the Secured Promissory Note had been released.

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

Sprout Spinout and/or Divestiture

On September 18, 2023, the Company announced that after careful consideration and evaluation of potential strategic alternatives to enhance the Company's value, the Board of Directors has approved a plan to proceed with a spinout to Neptune shareholders of a majority of its equity interest in Sprout. Upon completion of the spinout, which would follow the previously announced exchange by Neptune of existing Sprout debt for Sprout equity, pursuant to the term sheet entered into with Morgan Stanley as previously announced on August 17, 2023, it was anticipated that Neptune would spin out a majority of its equity interest in Sprout to current Neptune shareholders, and Neptune would keep a retained interest of approximately 10-15%.

On January 24, 2024, the Company announced the appointment of Stifel Nicolaus Canada Inc. ("Stifel") to act as exclusive financial advisor to the Company's organic baby food and toddler brand, Sprout Foods Inc., providing financial advisory, investment banking services, and strategic advice regarding the review of divestiture alternatives related to Sprout.

Letter of Intent to Acquire Leading Data-Marketing and Artificial Intelligence Company, Datasys

On November 20, 2023, the Company announced it had entered into a non-binding Letter of Intent ("LOI") to acquire Datasys Group, Inc., ("Datasys") and affiliated companies. The non-binding LOI establishes the framework for a potential transaction (the "Proposed Transaction") whereby Neptune would acquire all the outstanding equity of Datasys, subject to diligence, final board approval, shareholder approval and additional terms and conditions.

Datasys is a leading data-marketing company that utilizes artificial intelligence and machine learning to derive intelligence from one of the largest consumer and business data sets in the world. Datasys leverages its expansive data of over 3 billion records and technology to help companies more accurately target their ideal customers and provide intelligent marketing solutions. Datasys' clients include leading global corporations such as Microsoft, Ford, Mastercard and Honda. For full year 2022, Datasys' unaudited results were \$25.2 million in revenue and \$9.1 million in EBITDA.

Total potential consideration for the acquisition is \$112 million in a combination of \$20 million in cash at closing, \$32 million in restricted equity based on a pre-closing volume weighted-average price ("VWAP") of the Company's share price on NASDAQ (subject to a minimum of 10 million shares) and restricted until three gradual releases over 10-30 months, a 5-year \$31 million paid-in-kind ("PIK") seller note (carrying interest at 7%, subject to annual payment of interests, secured by the assets of Datasys, with principal being payable at maturity subject to a 25% discount in the event of early repayment within 22 months) and an earnout payment ranging from \$5 million to \$22 million, subject to Datasys achieving 2024 EBITDA thresholds between \$13 million and \$16 million (or greater). Payment by the Company of the deferred consideration, whether in payment of the PIK seller note (both interest and principal) and the earnout payment may be paid in cash or in kind in the form of Company shares, based on a VWAP of the Company's share price at the time of payment.

The LOI sets out the initial proposed terms and conditions pursuant to which the Company and Datasys would effect a business combination that would result in the acquisition of Datasys by Neptune, which anticipates becoming a U.S. corporation in the context of the Proposed Transaction. If definitive documentation for the Proposed Transaction is agreed upon and the transaction is consummated, the Company would continue to operate Datasys' business as a data, analytics, digital media solutions provider and artificial intelligence technology company with several proprietary data sets, multiple marketing channels and a robust marketing cloud.

Neptune and Datasys are still in negotiations, have not executed a definitive agreement and are under no obligation to enter into or continue negotiations regarding a definitive agreement relating to the Proposed Transaction. Additionally, for various reasons uncovered during the diligence process, the Company has concluded that it is no longer viable to pursue to the Proposed Transaction on the terms contemplated in the LOI. Neptune and Datasys are currently in discussions regarding a revised transaction structure and continue to negotiate in good faith to explore all possible avenues to reach an amicable partnership. There can be no assurance that a definitive agreement will be entered into or that the Proposed Transaction or an alternate transaction with revised terms will be consummated at all.

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 had 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 was 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. The Company's business operations were not affected by the receipt of the Notification Letter.

On September 8, 2023, the Company completed a share consolidation of its outstanding common shares ("Common Shares") on the basis of one (1) post-consolidation Common Share for every forty (40) pre-consolidation Common Shares (the "Consolidation"). The Consolidation was previously approved by the board of directors of the Company on August 7, 2023. Each fractional Common Share remaining after completion of the Consolidation that is less than one (1) whole of a Common Share will be increased to one (1) whole Common Share. The Consolidation reduced the number of Common Shares issued and outstanding from approximately 24.1 million Common Shares to approximately 0.6 million Common Shares. Each fractional Common Share remaining after completion of the Consolidation that was less than one whole of a Common Share was increased to one whole Common Share.

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 had 45 calendar days, or until September 5, 2023, to submit a plan to regain compliance.

On November 30, 2023, the Company received notification from the Nasdaq, 2023, that Nasdaq has determined to delist the Company's common shares (the "Common Shares") due to noncompliance with the Minimum Bid Requirement and the Stockholders' Equity Requirement. The notification specifies that the Company is not in compliance with the minimum bid price requirement for continued listing on the Nasdaq Capital Market (NASDAQ Listing Rule 5550(a)(2)), as the bid price for the Common Shares on Nasdaq closed below US\$1.00 (the "Minimum Bid Requirement") for 30 consecutive trading days. As the Company previously implemented two reverse stock splits over the prior two-year period with a cumulative ratio of 250 shares or more to one, it is not eligible for any compliance period specified in Rule 5810(c)(3)(A). In addition, as previously disclosed, the Company received notification on July 19, 2023, that it was not in compliance with the minimum stockholders' equity requirement (NASDAQ Listing Rule 5550(b)(1)), as the Company's stockholders' equity was below the minimum US\$2.5 million required (the "Stockholders' Equity Requirement"). The Company was provided 180 calendar days, or until January 16, 2024, to regain compliance with the Stockholders' Equity Requirement. This deficiency serves as an additional and separate basis for delisting. The Company appealed the determination made by Nasdaq within seven calendar days, or by December 7, 2023, pursuant to the procedures set forth in the Nasdaq Listing Rules. The Nasdaq Listing Rules provide that the Company may request a hearing before a Nasdaq Hearings Panel (the "Panel"), and such hearing request will stay the suspension of the Company's securities pending the Panel's decision. The Company submitted its initial written responses to the Panel on February 9, 2024, and a hearing is scheduled to take place on February 29, 2024.

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		Nine-month periods ended	
	December 31, 2023	December 31, 2022	December 31, 2023	December 31, 2022
Total revenues	\$ 7.600	\$ 12.209	\$ 26.967	\$ 40.468
Adjusted EBITDA ¹	(18.453)	0.458	(32.340)	(26.698)
Net loss	(19.170)	(0.497)	(34.307)	(44.290)
Net income (loss) attributable to equity holders of the Company	(17.749)	1.288	(26.954)	(33.894)
Net loss attributable to non-controlling interest	(1.421)	(1.786)	(7.354)	(10.396)
Basic and diluted income (loss) attributable to common shareholders of the Company	(4.14)	2.34	(15.11)	(143.00)

	As at December 31, 2023	As at March 31, 2023	As at March 31, 2022
Total assets	\$ 23.026	\$ 30.928	\$ 104.955
Working capital ²	(56.817)	(17.484)	7.071
Non-current financial liabilities	1.830	17.455	13.800
(Deficiency) equity attributable to equity holders of the Company	(31.247)	(11.940)	48.116
(Deficiency) equity attributable to non-controlling interest	(20.974)	(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 three-month period ended September 30, 2022, the Company re-casted 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 December 31, 2023, March 31, 2023 and March 31, 2022 were \$16.600, \$23.550 and \$337.388 respectively, and current liabilities as at December 31, 2023, March 31, 2023 and March 31, 2022 were \$73.417, \$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 three-month period 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		Nine-month periods ended	
	December 31, 2023	December 31, 2022	December 31, 2023	December 31, 2022
Net loss for the period	\$ (19.170)	\$ (0.497)	\$ (34.307)	\$ (44.290)
Add (deduct):				
Depreciation and amortization	0.278	0.662	0.991	2.391
Revaluation of derivatives	(1.597)	(8.368)	(7.187)	(16.084)
Net finance costs	1.603	7.384	6.571	2.657
Equity classified stock-based compensation	0.433	1.005	1.517	2.832
Impairment loss on long-lived assets	—	0.271	0.075	25.781
Income tax expense	—	0.002	—	0.015
Adjusted EBITDA ¹	\$ (18.453)	\$ 0.459	\$ (32.340)	\$ (26.698)

¹ The Adjusted EBITDA is not a standard measure endorsed by US GAAP requirements. In the three-month period ended September 30, 2022, the Company re-casted 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		Nine-month periods ended	
	December 31, 2023	December 31, 2022	December 31, 2023	December 31, 2022
	Total Revenues	Total Revenues	Total Revenues	Total Revenues
Canada	\$ 0.875	\$ 1.348	\$ 3.102	\$ 7.075
United States	6.700	10.597	23.794	32.626
Other countries	0.024	0.264	0.071	0.767
	\$ 7.599	\$ 12.209	\$ 26.967	\$ 40.468

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 December 31, 2023		
	Property, plant and equipment	Goodwill	Intangible assets
Canada	\$ 0.196	\$ 2.483	\$ 1.309
United States	0.839	—	—
Total	\$ 1.035	\$ 2.483	\$ 1.309

	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 December 31, 2023 compared to December 31, 2022

	For the three-month period ended		Changes	
	December 31, 2023	December 31, 2022	Changes in \$	Changes in %
Total revenues	\$ 7.600	\$ 12.209	(4.609)	-37.8%
Total cost of sales	(6.565)	(10.328)	3.763	36.4%
Gross profit	1.035	1.881	(0.846)	-45.0%
Gross profit margin	13.6%	15.4%	-1.8%	-11.6%
Research and development expenses, net of tax credits and grants	(0.001)	(0.029)	0.028	96.6%
Selling, general and administrative expenses	(18.732)	(8.727)	(10.005)	-114.6%
Impairment losses	—	(0.271)	0.271	100.0%
Loss from operating activities	(17.698)	(7.061)	(10.637)	-150.6%
Net finance costs	(1.603)	(1.363)	(0.240)	-17.6%
Foreign exchange gain	0.600	0.525	0.075	14.3%
Gain on issuance and change in fair value of derivatives	1.597	7.338	(5.741)	-78.2%
Other elements from the loss before income taxes	(2.066)	0.066	(2.132)	-3230.3%
	(1.472)	6.566	(8.038)	-122.4%
Loss before income taxes	(19.170)	(0.495)	(18.675)	-3772.7%
Income tax expense	—	(0.002)	0.002	100.0%
Net loss	(19.170)	(0.497)	(18.673)	-3757.1%
Adjusted EBIDTA	(18.453)	0.459	(18.912)	-4120.3%

Revenues

Total consolidated revenues for the three-month period ended December 31, 2023 amounted to \$7.6 million representing a decrease of \$4.6 million or 38% compared to \$12.2 million for the three-month period ended December 31, 2022.

Food and Beverages revenues represented a decrease of \$3.5 million or 42% in comparison to the three-months ended December 31, 2022, mainly due to a decrease in Sprout sales due to supply issues. As for Nutraceuticals revenues, they represented a decrease of \$0.8 million or 23% when compared to the three-month period ended December 31, 2022, which was primarily due to timing, as Nutraceutical B2B sales are not quarterly linear. In addition, there was a decrease of less than \$0.1 million in Cannabis revenues from the now-divested Cannabis business.

Geographic Revenues

From a geographic perspective, revenues for the current quarter decreased by \$0.5 million or 35% in Canada, decreased by \$3.9 million or 37% in the United States and decreased by \$0.2 million or 91% for other countries (all royalty revenues) compared to the three-months ended December 31, 2022.

The decrease of revenue in Canada for the period is mainly due to the timing of Nutraceutical sales, as the decrease in the USA mainly comes from Food and Beverages.

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

Gross Profit

Gross profit 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 December 31, 2023 amounted to \$1.0 million compared to \$1.9 million, a decrease of \$0.8 million or 45% for the three-month period ended December 31, 2022. This change is due to a decrease in revenues of \$4.6 million, offset by a reduction in cost of sales of \$3.8 million. This decrease to the gross profit was primarily attributable to the decrease in food and beverage revenues.

Gross Margin Percentage

For the three-month periods ended December 31, 2023 and 2022, the consolidated gross margin went from 15.4% in 2022 to 13.6% in 2023, a decrease of 1.8 basis points.

Research and Development ("R&D") Expenses

For the three-month period ended December 31, 2023, the consolidated R&D expenses amounted to \$0.0 million, compared to \$0.0 million for the three-month period ended December 31, 2022, a decrease of less than \$0.1 million, as most of the R&D expenses were attributable to the now divested Cannabis business.

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

Consolidated SG&A expenses for the three-month period ended December 31, 2023 amounted to \$18.7 million compared to \$8.7 million for the three-month period ended December 31, 2022, an increase of \$10 million or 115% primarily due to a \$13.5 million increase in legal fees and settlements, offset by a \$0.9 million decrease in payroll expenses, a \$0.8 million decrease in office related expenses, a \$0.7 million decrease in insurance, a \$0.6 million decrease in marketing and a \$0.4 million decrease in depreciation expense.

Impairment losses

Aggregate impairment losses for the three-month period ended December 31, 2023 amounted to \$0.0 million compared to \$0.3 million for the three-month period ended December 31, 2022, a decrease of \$0.3 million or 100%. There were no impairment expenses in the current period due to the complete write off of Sprout's intangibles at year end.

Restructuring fees

A new line item was added to the Company's Condensed Consolidated Interim Statements of Loss and Comprehensive Loss during the quarter, following the Sprout Restructuring. Accordingly, the restructuring fees for the three-month period ended December 31, 2023 amounted to \$2.1 million compared to \$nil for the three-month period ended December 31, 2022.

Net finance costs, revaluations, changes in fair values and foreign exchange losses

Net finance costs, foreign exchange and revaluations of derivatives amounted to a loss of \$0.6 million for the three-month period ended December 31, 2023, compared to a gain of \$6.5 million for the three-month period ended December 31, 2022, a change of \$5.9 million or 91% for the three-month period ended December 31, 2023. The variation for this period is mainly attributable to a \$6.8 million increase in revaluation of derivatives, offset by \$1.0 million loss on issuance of derivatives.

Income taxes

Income tax expense (recovery) was \$nil for the three-month periods ended December 31, 2023 and 2022. As entities are in carry forward loss positions, there is no impact to income taxes for the three-month periods.

Adjusted EBITDA

Consolidated Adjusted EBITDA loss for the three-month period ended December 31, 2023 increased by \$18.9 million or 4125% to an Adjusted EBITDA loss of \$18.5 million compared to \$0.5 million for the three-month period ended December 31, 2022. The change in Adjusted EBITDA loss for the three-month period ended December 31, 2023 compared to the three-month period ended December 31, 2022 was driven by an increase in loss from operating activities of \$18.7 million, an increase in net finance costs of \$5.8 million, partly offset by a decrease in stock based compensation of \$0.6, a decrease in depreciation of \$0.4, a reduction of impairment loss of \$0.2 and a change in the revaluation of derivatives of \$6.8 million.

Net loss

For the three-month period ended December 31, 2023, the net loss amounted to \$19.2 million compared to \$0.5 million for the three-month period ended December 31, 2022, an increase of \$18.7 million or 3754%. This change is primarily due to a decrease in revenues of \$4.6 million, offset by a reduction in cost of sales of \$3.8 million. In addition, there was an increase in SG&A of \$10.1 million, primarily due to a \$13.5 million increase in legal fees and settlements, offset by a \$0.9 million decrease in payroll expenses, a \$0.8 million decrease in office related expenses, a \$0.7 million decrease in insurance, a \$0.6 million decrease in marketing and a \$0.4 million decrease in depreciation expense. Finally, net finance costs, revaluations, changes in fair values and foreign exchange losses changed by \$5.9 million, mainly attributable to a \$6.8 million increase in revaluation of derivatives, offset by \$1.0 million loss on issuance of derivatives.

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

Summary of Changes to the Condensed Consolidated Interim Statements of Loss Nine-month period ended December 31, 2023 compared to December 31, 2022

	For the nine-month period ended		Changes	
	December 31, 2023	December 31, 2022	Changes in \$	Changes in %
Total revenues	\$ 26.967	\$ 40.468	(13.501)	-33.4%
Total cost of sales	(25.158)	(40.374)	15.216	37.7%
Gross profit	1.809	0.094	1.715	1824.5%
Gross profit margin	6.7%	0.2%	6.5%	2788.0%
Research and development expenses, net of tax credits and grants	(0.047)	(0.451)	0.404	89.6%
Selling, general and administrative expenses	(34.542)	(35.188)	0.646	1.8%
Impairment losses	(0.075)	(25.781)	25.706	99.7%
Other elements from the operating loss	—	0.170	(0.170)	-100.0%
Loss from operating activities	(32.855)	(61.156)	28.301	46.3%
Net finance costs	(6.571)	(2.657)	(3.914)	-147.3%
Foreign exchange gain	0.943	6.545	(5.602)	-85.6%
Gain on issuance and change in fair value of derivatives	6.242	12.927	(6.685)	-51.7%
Other elements from the loss before income taxes	(2.066)	0.066	(2.132)	-3230.3%
Loss before income taxes	(1.452)	16.881	(18.333)	-108.6%
	(34.307)	(44.275)	9.968	22.5%
Income tax expense	—	(0.015)	0.015	100.0%
Net loss	(34.307)	(44.290)	9.983	22.5%
Adjusted EBITDA	(32.340)	(26.698)	(5.642)	-21.1%

Revenues

Total consolidated revenues for the nine-month period ended December 31, 2023 amounted to \$27.0 million representing a decrease of \$13.5 million or 33% compared to \$40.5 million for the nine-month period ended December 31, 2022.

Food and Beverages revenues represented a decrease of \$6.2 million or 25% in the nine-month period ended December 31, 2023, compared to the nine-month period ended December 31, 2022, mainly due to supply issues. As for Nutraceuticals revenues, there was a decrease of \$3.9 million or 33% when compared to the same period the prior year related to timing as the nutraceutical 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 nine-month period ended December 31, 2023 decreased by \$4.0 million or 56% in Canada, decreased by \$8.8 million or 27% in the United States and decreased by \$0.7 million or 91% for other countries (all royalty revenues) compared to the nine-month period ended December 31, 2022. The decrease in revenue in Canada for the year is mainly due to the divestiture of the Cannabis business, as the decrease in the USA mainly comes from Food and Beverages.

The decrease of revenue in Canada for the period is mainly due to the timing of Nutraceutical sales and the now-divested Cannabis business, as the decrease in the USA mainly comes from Food and Beverages.

Gross Profit (Loss)

The consolidated gross profit (loss) for the nine-month period ended December 31, 2023 amounted to \$1.8 million compared to \$0.1 million for the nine-month period ended December 31, 2022, an improvement of \$1.7 million or 1823%.

This change is due to a decrease in revenues of \$13.5 million offset by a reduction in cost of sales of \$15.2 million. This decrease to the gross profit was primarily attributable to the decrease in food and beverage revenues, the divestiture of the cannabis business, the decrease in Nutraceutical revenues due to timing of customer orders offset by the reductions in the costs of goods for these sales.

Gross Margin Percentage

For the nine-month periods ended December 31, 2023 and 2022, the consolidated gross margin went from 0.2% in 2022 to 6.7% in 2023, an increase of 6.5 basis points.

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

Research and Development ("R&D") Expenses

For the nine-month period ended December 31, 2023, the consolidated R&D expenses amounted to \$0.1 million, compared to \$0.5 million for the nine-month period ended December 31, 2022, a decrease of \$0.4 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 nine-month period ended December 31, 2023 amounted to \$34.5 million compared to \$35.2 million for the same period the prior year, a decrease of \$0.6 million or 2% primarily due to a reduction in payroll expenses of \$5.2 million, a decrease in marketing of \$1.8 million, a decrease in office related expenses of \$1.5 million, a reduction of depreciation of \$0.9, a decrease in consulting expenses of \$0.5, a decrease in bad debts of \$0.4 million, a decrease in R&D of \$0.4, and a decrease in commissions of \$0.3, offset by an increase in legal and settlement fees of \$8.9 million and an increase in insurance expenses of \$1.4 million.

Impairment losses

Aggregate impairment losses amounted to \$0.1 million for the nine-month period ended December 31, 2023 compared to \$25.8 million for the same period last year, a decrease of \$25.7 million or 100%. There were minimal impairment losses for the current period; impairment losses for the same period the previous year mainly related to the write-down of the assets held for sale of now-divested Cannabis business (\$15.3 million) and the write-down of goodwill and intangibles (\$7.6 million).

Restructuring fees

A new line item was added to the Company's Condensed Consolidated Interim Statements of Loss and Comprehensive Loss during the quarter ended December 31, 2023, following the Sprout Restructuring. Accordingly, the restructuring fees for the nine-month period ended December 31, 2023 amounted to \$2.1 million compared to \$nil for the same period the previous year.

Net finance costs, revaluations, changes in fair values and foreign exchange losses

Net finance costs, foreign exchange and revaluations of derivatives amounted to a loss of \$0.6 million for the nine-month period ended December 31, 2023, compared to a gain of \$16.8 million for the nine-month period ended December 31, 2022, a change of \$16.2 million or 96% for the nine-month period ended December 31, 2023. The variation for this period is mainly attributable to the increase in interest expense of \$3.9 million on the Company's financing facilities, the reduction in the gain on revaluation of warrant liabilities of \$6.7 million, as well as foreign exchange impact of \$5.6 million. 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 nine-month periods ended December 31, 2023 and 2022. As entities are in carry forward loss positions, there is no impact to income taxes for the periods.

Adjusted EBITDA

Consolidated Adjusted EBITDA loss increased by \$5.6 million or 21% for the nine-month period ended December 31, 2023 to an Adjusted EBITDA loss of \$32.3 million compared to \$26.7 million for the nine-month period ended December 31, 2022. The change in Adjusted EBITDA loss for the nine-month period ended December 31, 2023 compared to the nine-month period ended December 31, 2022 was driven by an improvement in loss from operating activities of \$10.0 million, a decrease in revaluation of derivatives of \$8.9 million and a decrease in financing costs of \$3.9, offset by an addback of SG&A expenses including depreciation, equity classified stock-based compensation, non-employee compensation related to warrants of \$2.7 million, and a reduction of impairment losses of \$25.7 million.

Net loss

For the nine-month period ended December 31, 2023, the net loss amounted to \$34.3 million compared to \$44.3 million for the nine-month period ended December 31, 2022, a decrease of \$10 million or 23% that was driven by an improvement in gross profit of \$1.7 million, a decrease in R&D expenses of \$0.4 million, a decrease in SG&A expenses of \$0.6 million, a reduction in impairment losses of \$25.7 million, offset by an increase in finance costs of \$3.9 million, an increase in foreign exchange of \$5.6 million, a decrease in gain on fair value of derivatives of \$6.7 million and a decrease in other elements of loss before income taxes.

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 nine-month periods ended December 31, 2023 and 2022, in millions of dollars, was as follows:

	Three-month periods ended		Nine-month periods ended	
	December 31, 2023	December 31, 2022	December 31, 2023	December 31, 2022
Sources:				
Proceeds from the issuance of shares and warrants through a Direct Offering	\$ —	\$ —	\$ 8.500	\$ 5.000
Proceeds from the issuance of shares and warrants through a Direct Offering Priced At-The-Market and Concurrent Private Placement	—	6.000	—	6.000
Proceeds from exercise of options and pre-funded warrants	—	—	0.001	—
Proceeds from sale of Cannabis assets	—	3.122	—	3.122
Proceeds from sale of assets	—	0.085	—	0.170
Increase in loans and borrowings	9.411	—	30.918	3.800
Foreign exchange gain on cash and cash equivalents held in foreign currencies	0.418	0.018	—	—
	9.829	9.225	39.419	18.092
Uses:				
Acquisition of property, plant and equipment	—	—	0.079	0.602
Repayment of loans and borrowings	10.320	(0.550)	30.921	—
Costs of issuance of shares and warrants	—	0.865	1.522	1.330
Withholding taxes paid pursuant to the settlement of non-treasury RSUs	—	0.314	—	0.574
Foreign exchange loss on cash and cash equivalents held in foreign currencies	—	—	0.092	0.238
Cash flows used in operating activities	3.027	6.587	7.565	20.670
	13.347	7.216	40.179	23.414
Net cash inflows (outflows)	\$ (3.518)	\$ 2.009	\$ (0.760)	\$ (5.322)

Sources and Uses of Funds

For the nine-month period ended December 31, 2023, there was an increase of \$3.0 million or 13% in loans and borrowings, net of repayments but including capitalized interests, and net proceeds from Direct Offerings were of \$7.0 million. The proceeds were mainly used for operating activities which amounted to \$7.6 million, including inventory procurement, salaries and professional fees, for a net cash outflow of \$0.8 million. For the quarter ended December 31, 2023, loans and borrowings increased by \$9.4 million, with \$10.3 million used for repayments of loans and borrowings and \$3.0 million of cash being used for operating activities, bringing net cash outflows in the period to \$3.5 million.

Direct Offerings

On September 26, 2023, Neptune issued a total of 1,550,000 pre-funded warrants ("September 2023 Pre-Funded Warrants"), along with 250,000 common shares of the Company, as part of a registered direct offering ("September 2023 Direct Offering"). Each September 2023 Pre-Funded Warrant was exercisable for one Common Share. The common shares and the September 2023 Pre-Funded Warrants were sold together with 1,800,000 September 2023 Warrants. Each of the September 2023 Warrant is exercisable for one common share. Each of the common shares and September 2023 Pre-Funded Warrants and the accompanying September 2023 Warrants were sold together at a combined offering price of \$2.50, for aggregate gross proceeds of \$4,500,000 before deducting fees and other estimated offering expenses. The September 2023 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 September 2023 Pre-Funded Warrants are exercised in full. The September 2023 Warrants have an exercise price of \$2.50 per share and can be exercised for a period of 5 years from the date of issuance. The September 2023 Pre-Funded Warrants were exercised in part during the nine-month period ended December 31, 2023, for gross proceeds of \$116.

On May 15, 2023, Neptune issued a total of 192,652 pre-funded warrants ("May 2023 Pre-Funded Warrants"), along with 110,380 common shares of the Company, as part of a registered direct offering ("May 2023 Direct Offering"). Each May 2023 Pre-Funded Warrant was exercisable for one Common Share. The common shares and the May 2023 Pre-Funded Warrants were sold together with 303,032 May 2023 Warrants (see note 10). Each of the May 2023 Warrant is exercisable for one common share. Each of the common shares and May 2023 Pre-Funded Warrants and the accompanying May 2023 Warrants were sold together at a combined offering price of \$13.20, for aggregate gross proceeds of \$4,000,000 before deducting fees and other estimated offering expenses. The May 2023 Pre-Funded Warrants were funded in full at closing except for a nominal exercise price of \$0.004 and are exercisable commencing on the Closing Date and will terminate when such May 2023 Pre-Funded Warrants are exercised in full. The May 2023 Warrants had an exercise price of \$13.20 per share and could be exercised for a period of 5 years from the date of issuance. The Pre-Funded Warrants were fully exercised during the nine-month period ended December 31, 2023, for gross proceeds of \$541.

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

On June 23, 2022, Neptune closed agreements with several institutional investors for the purchase and sale of an aggregate of 32,500 common shares of the Company, 16,140 pre-funded warrants and accompanying series of warrants to purchase up to an aggregate of 97,280 common shares warrants, at an offering price of \$102.80 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 \$92.80 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 November 17, 2023, Biodroga Nutraceuticals Inc. ("Biodroga"), a subsidiary of the Company, executed an Invoice Purchase and Sale Agreement (the "PSA") with Alterna Capital Solutions LLC (the "Lender"), dated November 8, 2023, providing for the purchase by the Lender of certain of Biodroga's accounts receivable. Pursuant to the PSA, Biodroga agreed to sell eligible accounts receivable to the Lender for an amount equal to the face amount of each account receivable less a reserve percentage. In connection with the PSA, Biodroga and Alterna also executed an Inventory Finance Rider (the "Rider"), dated November 8, 2023, providing for advances by Alterna secured by the inventory of Biodroga. Subject to the Lender's discretion and the terms and conditions of the Rider and the PSA, the Lender may make advances to Biodroga of an aggregate amount up to and not to exceed, as of any date of determination of (i) 75% of Eligible Inventory (as defined in the Rider) valued at the lower of cost or market value, or (ii) 75% of the net orderly liquidation value of the Eligible Inventory. The maximum amount potentially available to be deployed by the Lender at any given time pursuant to the PSA and Rider is \$3 million, which may be increased in \$1 million increments up to a maximum of \$8 million in accordance with the terms of the PSA. The PSA and Rider provide for the payment of fees by Biodroga, including a funds usage fee of prime plus 1% with a minimum interest rate of 9.5% per annum, and includes customary representations and warranties, indemnification provisions, covenants and events of default. The PSA and Rider provide for an initial twelve (12) month term, followed by automatic annual renewal terms unless Biodroga provides written notice pursuant to the PSA prior to the end of any term. In connection with the PSA, the Company delivered a Commercial Guaranty (the "Parent Guaranty") to the Lender, guaranteeing the prompt payment and performance of the liabilities and obligations of Biodroga to the Lender under the PSA.

On November 6, 2023, the MSEC Promissory Note was amended, with the maturity date extended to June 30, 2025 and now bears interest at the rate of 15.0% per annum to June 30, 2024, payable in kind, and 7.5% per annum, payable in kind, and 7.5% per annum payable in cash, from and after June 30, 2024. However, the Company did not pay the other promissory notes that were due on February 1, 2024, but is working with the lenders to resolve the situation. Consequently, the extension of the MSEC Promissory Note may be compromised.

On November 3, 2023, the Company converted a substantial portion of its debt in Sprout into Sprout equity pursuant to a binding term sheet entered into with NH Expansion Credit Fund Holdings L.P. (the "Exchange"). In accordance with the terms of the Exchange, Sprout debt was exchanged for Sprout equity resulting in Neptune having increased Sprout ownership from 50.1% to 89.5%. The Exchange substantially reduced Sprout's debt and amended the remaining Sprout promissory notes, extending their maturity date to June 30, 2025, and the terminating the guarantee currently provided by the Company. The Exchange will significantly improve the strategic positioning for both entities, decreasing expenses and positioning Sprout to become an independent trading entity.

On October 13, 2023, the Company announced that it had prepaid in full its senior secured notes with CCUR Holdings, Inc. and Symbolic Logic, Inc., after a payment of approximately \$2.3 million. The senior secured notes had an original principal amount of \$4 million and bore a fixed interest rate of 16.5% per annum.

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 9,317 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.

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 920 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 3,659 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.

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

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 21,250 shares of Neptune common stock, with each warrant exercisable for 5 years following the initial issuance at a price of \$21.20 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. The Company completed the repayment of these Notes on October 10, 2023.

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 2,778 shares of Neptune common stock, with each warrant exercisable for 5 years following the initial issuance at a price of \$21.60 per common share. The aggregate fair value on issuance of the March 2023 Warrants was \$0.0 million.

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

CAPITAL RESOURCES

Liquidity position

As at December 31, 2023, the Company's liquidity position, consisting of cash and cash equivalents, was \$1.2 million. Furthermore, as at December 31, 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 one month 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 and nine-month periods ended December 31, 2023 and 2022

Summary

As at December 31, 2023, cash and cash equivalent totaled \$1.2 million, a decrease of \$2.2 million or 64% compared to cash and cash equivalents totaling \$3.4 million as at December 31, 2022.

Operating activities

During the three months ended December 31, 2023, our operating activities used cash of \$3.0 million compared to \$6.6 million for the three-month period ended September 30, 2022. During the nine-month period ended December 31, 2023 our operating activities used cash of \$7.6 million compared to \$20.7 million in the nine-month period ended December 31, 2022.

Investing activities

The Company's business models require low capital expenditures ("CAPEX") future investments. For the three-month period ended December 31, 2023 investing activities used \$0.0 million compared to \$3.2 million for the same period the prior year. For the nine-month period ended December 31, 2023, \$0.1 million was used for investing activities; in the same period the prior year, \$2.7 million was used for investing activities.

Financing activities

The Company has been successful in obtaining financing from public issuances, private placements and debt fundings. The Company entered into Registered Direct Offerings closed on June 23, 2022 (\$5.0 million), October 11, 2022 (\$6.0 million), May 15, 2023 (\$4.0 million) and September 26, 2023 (\$4.5 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, which were repaid in October 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 \$5.3 million was used as at December 31, 2023).

The Company's current cash position will be sufficient to support its financial needs approximately one month 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 November 6, 2023, the Company entered the Third Amended and Restated Secured Promissory Note, which shall bear interest at the rate of (i) fifteen percent (15.00%) per annum through and including June 30, 2024, which shall be compounded by being added to the principal amount of this Note on each Payment Date and (ii) from and after July 1, 2024 and continuing until this Note is repaid in full in accordance with the terms hereof, (a) seven and one-half percent (7.50%), which shall be compounded by being added to the principal amount of this Note on each Payment Date and (b) seven and one-half percent (7.50%) due and payable in cash on each Payment Date; provided, however, that upon an Event of Default (as defined below) and while such Event of Default is continuing, this Note shall bear interest at the rate per annum equal to five percent (5.0%) above the rate that is otherwise applicable hereto, compounded weekly. Interest will be calculated on the basis of a 360-day year for the actual number of days elapsed.

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

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. The Company completed the repayment of these Notes on October 10, 2023.

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.

On November 6, 2023, the MSEC Promissory Note was amended, with the maturity date extended to June 30, 2025 and now bears interest at the rate of 15.0% per annum to June 30, 2024, payable in kind, and 7.5% per annum, payable in kind, and 7.5% per annum payable in cash, from and after June 30, 2024. However, the Company did not pay the other promissory notes that were due on February 1, 2024, but is working with the lenders to resolve the situation. Consequently, the extension of the MSEC Promissory Note may be compromised.

On November 17, 2023, Biodroga Nutraceuticals Inc. ("Biodroga"), a subsidiary of the Company, executed an Invoice Purchase and Sale Agreement (the "PSA") with Alterna Capital Solutions LLC (the "Lender"), dated November 8, 2023, providing for the purchase by the Lender of certain of Biodroga's accounts receivable. Pursuant to the PSA, Biodroga agreed to sell eligible accounts receivable to the Lender for an amount equal to the face amount of each account receivable less a reserve percentage. In connection with the PSA, Biodroga and Alterna also executed an Inventory Finance Rider (the "Rider"), dated November 8, 2023, providing for advances by Alterna secured by the inventory of Biodroga. Subject to the Lender's discretion and the terms and conditions of the Rider and the PSA, the Lender may make advances to Biodroga of an aggregate amount up to and not to exceed, as of any date of determination of (i) 75% of Eligible Inventory (as defined in the Rider) valued at the lower of cost or market value, or (ii) 75% of the net orderly liquidation value of the Eligible Inventory. The maximum amount potentially available to be deployed by the Lender at any given time pursuant to the PSA and Rider is \$3 million, which may be increased in \$1 million increments up to a maximum of \$8 million in accordance with the terms of the PSA. The PSA and Rider provide for the payment of fees by Biodroga, including a funds usage fee of prime plus 1% with a minimum interest rate of 9.5% per annum, and includes customary representations and warranties, indemnification provisions, covenants and events of default. The PSA and Rider provide for an initial twelve (12) month term, followed by automatic annual renewal terms unless Biodroga provides written notice pursuant to the PSA prior to the end of any term. In connection with the PSA, the Company delivered a Commercial Guaranty (the "Parent Guaranty") to the Lender, guaranteeing the prompt payment and performance of the liabilities and obligations of Biodroga to the Lender under the PSA.

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):

	December 31, 2023		March 31, 2023	
Share capital	\$	327.944	\$	321.946
Warrants		6.648		6.155
Additional paid-in capital		59.681		58.139
Accumulated other comprehensive loss		(14.926)		(14.539)
Deficit		(410.595)		(383.641)
Total equity (deficiency) attributable to equity holders of the Company	\$	(31.248)	\$	(11.940)
Total equity (deficiency) attributable to non-controlling interest		(20.974)		(15.621)
Total equity (deficiency)	\$	(52.222)	\$	(27.561)

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

CONTRACTUAL OBLIGATIONS

The following are the contractual obligations as at December 31, 2023:

		December 31, 2023					
Required payments per year	Carrying amount	Contractual Cash flows	Less than 1 year	1 to 3 years	4 to 5 years	More than 5 years	
Trade and other payables and provisions	\$ 31.372	\$ 31.372	\$ 31.372	\$ —	\$ —	\$ —	—
Lease liabilities ⁽¹⁾	2.156	2.778	0.573	1.076	0.610	—	—
Loans and borrowings ⁽²⁾	25.984	25.984	25.984	—	—	—	—
Other liability ⁽³⁾	0.014	15.000	—	—	—	—	—
	\$ 59.526	\$ 75.134	\$ 57.929	\$ 1.076	\$ 0.610	\$ —	—

(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.

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 212,500 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 December 31, 2023. The related charge for the three and nine-month periods ended December 31, 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, in perpetuity to the former CEO. A provision of \$1.1 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 three and six-months periods ended December 31, 2023 and December 31, 2023.

The Company has no significant off-balance sheet arrangements as at December 31, 2023, other than those mentioned above and the commitments disclosed in note 16 of the condensed consolidated interim financial statements for the three and nine-month periods ended December 31, 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.

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 and nine-month periods ended December 31, 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 and nine-month periods ended December 31, 2023, the Company transacted with a few new customers for which financial positions deteriorated during the period. The Company has recorded specific provisions related to these customers.

The expected credit losses for the three and nine-month periods ended December 31, 2023 were \$0.2 million and \$0.2 million respectively, (2022 - \$0.5 million and \$0.5 million). As at December 31, 2023, 81% of our trade receivables are past due (March 31, 2023 - 82%). We have provided for 83% of past due receivables as at December 31, 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.

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

- 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 three and nine-month periods ended December 31, 2023, inventories have been reduced by \$0.0 million and \$0.2 million respectively (2022 - \$0.0 million and \$3.1 million) 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 and nine-month periods ended December 31, 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.

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 \$7.6 million 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.

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

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 and nine-month periods ended December 31, 2023.

- Judgment related to the recognition period to be used in recording stock-based compensation in the December 31, 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 2,500 non-market performance options under the Company stock option plan at an exercise price of \$6,202.00 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 December 31, 2023. Changes in these assumptions would impact the timing of which the expense is recognized. These options were not exercisable as at December 31, 2023 and March 31, 2023.

On July 8, 2019, the Company granted 3,929 market performance options under the Company stock option plan at an exercise price of \$6,202.00 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 16,140 pre-funded warrants ("Pre-Funded Warrants"), along with 32,500 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 48,640 Series C Warrants (the "Series C Warrants"), and 48,640 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 \$102.80, 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 \$0.004 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 \$92.80 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 \$4.0 million for the Series C Warrants and \$3.1 million 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 \$2.1 million 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 \$0.5 million were recorded under finance costs.

On October 11, 2022, the Company closed a registered direct offering ("October 2022 Direct Offering") of 80,214 of its Common Shares and warrants ("Series E Warrants") to purchase up to 160,428 Common Shares in the concurrent Private Placement. The combined purchase price for one Common Share and one warrant was \$74.80. The Series E Warrants have an exercise price of \$64.80 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 \$6.0 million and net proceeds of \$5.1 million after deducting the placement agent fees and expenses, and the Company's offering expenses. Based on the fair value of the warrants as at the date of closing, which was determined using a Black-Scholes model, the Company recorded the full proceeds to liabilities, with an initial liability of \$7.0 million and a loss on initial recognition of \$1.0 million. 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 \$0.9 million were recorded under finance costs.

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

On January 12, 2023, Neptune 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"). Pursuant to the terms of the Notes, the Company also issued to the Noteholders warrants ("January 2023 Warrants") to purchase an aggregate of 21,250 shares of Neptune common stock, with each warrant exercisable for 5 years following the initial issuance at a price of \$21.20 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 \$0.3 million 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 2,778 shares of Neptune common stock, with each warrant exercisable for 5 years following the initial issuance at a price of \$21.60 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 ("May 2023 Pre-Funded Warrants"), along with 110,380 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 303,031 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 May 2023 Pre-Funded Warrants and the accompanying May 2023 Warrants were sold together at a combined offering price of \$13.20, for aggregate gross proceeds of \$4.0 million before deducting fees and other estimated offering expenses. The May 2023 Pre-Funded Warrants are funded in full at closing except for a nominal exercise price of \$0.004 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 \$13.20 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 May 2023 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 \$2.0 million for the May 2023 Warrants. The May 2023 Pre-Funded Warrants were also valued using the Black-Scholes model, resulting in \$1.3 million relative fair value recorded under equity, and by difference, \$0.7 million was allocated to the Common Shares. The May 2023 Pre-Funded Warrants were exercised in part during the three-month period ended December 31, 2023 for gross proceeds of \$541. Total issue costs related to this direct offering were of \$0.8 million, of which \$0.1 million were recorded under common stock, \$0.2 million were recorded under equity warrants and \$0.4 million were recorded under finance costs.

On September 26, 2023, the Company issued 1,800,000 of its common shares (or common share equivalents in lieu thereof) and accompanying warrants to purchase up to an aggregate of 1,800,000 common shares at a combined public offering price of \$2.50 per share and accompanying warrant, resulting in gross proceeds of approximately \$4.5 million. The warrants have an exercise price of \$2.50 per share, are immediately exercisable upon issuance and will expire five years following the date of issuance. On that day, the Company issued 250,000 common shares and 1,550,000 pre-funded warrants, along with 1,800,000 warrants (the "September 2023 Warrants"). As of December 31, 2023, 1,156,000 common shares were issued upon exercise of pre-funded warrants, leaving 394,000 pre-funded warrants outstanding; none of the September 2023 Warrants have been exercised to date. Proceeds of the \$4,500,000 September 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 Binomial model, resulting in an initial warrant liability of \$2.0 million for the September 2023 Warrants. The Pre-Funded Warrants were also valued using the Binomial model, resulting in \$2.0 million relative fair value recorded under equity, and by difference, \$0.5 million was allocated to the Common Shares. The Company is in need of financing to be able to continue its activities as described in note 1. Certain Pre-Funded Warrants were exercised in part during the three-month period ended December 31, 2023 for gross proceeds of \$116. Total issue costs related to this direct offering were of \$0.8 million, of which \$0.1 million were recorded under common stock, \$0.3 million were recorded under equity warrants and \$0.3 million 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 3.88% and a volatility of 101.26% for the three-month period ended December 31, 2023 (respectively 3.88% and 75.09% for the three-month period ended December 31, 2022). An increase or decrease in the volatility assumption significantly impacts the fair value of the long-term incentive.

- 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.

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

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 and nine-month periods ended December 31, 2023 and 2022 are consistent year over year.

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	4,532,038
Share options	13,895
Deferred share units	110
Restricted share units	71
Warrants	2,894,479
Total number of securities	7,440,593

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 December 31, 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 December 31, 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 December 31, 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 December 31, 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 December 31, 2023.

Our CEO and CFO have taken additional steps to support that the financial statements as of and for the three and nine-month periods ended December 31, 2023 are presented fairly in accordance with US GAAP.

Changes in ICFR

For the quarter ended December 31, 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 and nine-month periods ended December 31, 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 9, "Provisions", and 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 and nine-month periods ended December 31, 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.

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.

A large portion of our outstanding shares of common stock are currently held in a class action settlement fund, and the sale, distribution or disposition of these shares could result in one or more shareholders obtaining a significant ownership stake in the common stock of the Company.

On or about October 11, 2023, the Neptune Settlement Fund, a qualified settlement fund established for the sole purpose of maintaining the settlement proceeds awarded in the class action settlement approved by the United States District Court for the Eastern District of New York in *Gong v. Neptune Wellness Solutions, Inc.*, 2:21-cv-01386-ENV-ARL (E.D.N.Y.), was awarded 2,522,936 shares of the Company's common stock as part of the settlement award. The Neptune Settlement Fund currently holds 1,778,380 shares of the Company's common stock, which constitutes approximately 39.24% of the Company's total outstanding shares. While the Neptune Settlement Fund has indicated that it does not currently plan to engage in active participation in the Company's affairs or vote the shares in a way that would change the current board of directors or management of the Company, there can be no assurances that these intentions will not change in the future. Furthermore, due to the size of the settlement award, a distribution of the settlement shares to the class members or a disposal or sale of the shares on behalf of the class members could result in one or more shareholders owning significant percentage of the Company's common stock. The Company is not currently aware of any intentions by the Neptune Settlement Fund to dispose of any settlement shares or when the Neptune Settlement Fund intends to distribute the awarded shares to the class members.

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
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.

Date: February 16, 2024

Neptune Wellness Solutions Inc.

By: /s/ Michael Cammarata
Michael Cammarata
President, Chief Executive Officer and Director
(Principal Executive Officer)