Consolidated Interim Financial Statements of
(Unaudited)

NEPTUNE WELLNESS SOLUTIONS INC.

For the three-month and nine-month periods ended December 31, 2019 and 2018

NEPTUNE WELLNESS SOLUTIONS INC.

Consolidated Interim Financial Statements
(Unaudited)

For the three-month and nine-month periods ended December 31, 2019 and 2018

Financial Statements

NEPTUNE WELLNESS SOLUTIONS INC.

Consolidated Interim Statements of Financial Position
(Unaudited)

As at December 31, 2019 and March 31, 2019

		December 31, 2019		March 31, 2019 [1]
Assets				
Current assets:				
Cash and cash equivalents	$	20,783,070	$	9,819,351
Short-term investment		36,000		48,000
Trade and other receivables		8,183,231		5,806,388
Prepaid expenses		1,625,281		1,093,677
Inventories (note 5)		10,957,725		5,038,161
Other asset (note 16)		—		2,835,000
		41,585,307		24,640,577
Property, plant and equipment (note 6)		57,650,537		47,023,973
Right-of-use assets (note 7)		1,450,801		—
Intangible assets (note 8)		25,661,613		7,650,598
Goodwill (note 4 and 8)		77,842,081		6,750,626
Tax credits recoverable		152,464		152,464
Other asset (note 16)		3,200,000		4,002,337
Total assets	$	207,542,803	$	90,220,575
Liabilities and Equity				
Current liabilities:				
Trade and other payables	$	12,495,026	$	8,519,239
Lease liabilities (note 7)		428,017		—
Loans and borrowings (note 9)		3,755,025		3,466,501
Deferred revenues		361,291		25,070
Provisions (note 10)		1,009,702		7,964,576
		18,049,061		19,975,386
Deferred lease inducements		—		207,745
Lease liabilities (note 7)		1,225,662		—
Long-term payables		528,623		855,337
Contingent consideration (note 4)		33,926,764		—
Deferred tax liabilities		123,821		197,181
Other liability (note 19)		1,050,215		—
Total liabilities		54,904,146		21,235,649
Equity:				
Share capital (note 11)		202,815,650		131,083,698
Warrants (note 11 (e))		1,053,419		648,820
Contributed surplus		69,047,058		39,165,706
Accumulated other comprehensive income		4,018,276		758,066
Deficit		(124,295,746)		(102,671,364)
Total equity		152,638,657		68,984,926
Commitments and contingencies (note 17)				
Subsequent event (note 20)				
Total liabilities and equity	$	207,542,803	$	90,220,575

[1] The Corporation has initially applied IFRS 16 as at April 1, 2019. Under the transition method chosen, comparative information is not restated. Refer to note 3.

See accompanying notes to unaudited consolidated interim financial statements.

NEPTUNE WELLNESS SOLUTIONS INC.

Consolidated Interim Statements of Earnings and Comprehensive Income (Loss)
(Unaudited)

For the three-month and nine-month periods ended December 31, 2019 and 2018

	Three-month periods ended		Nine-month periods ended	
	December 31, 2019	December 31, 2018 [(1)]	December 31, 2019	December 31, 2018 [(1)]
Revenue from sales and services (note 18 (b))	$ 8,806,831	$ 6,132,217	$ 18,817,506	$ 17,613,772
Royalty revenues	339,743	405,951	1,029,912	1,164,125
Other revenues	27,835	—	200,280	—
Total revenues	9,174,409	6,538,168	20,047,698	18,777,897
Cost of sales (note 5)	(9,212,937)	(4,310,187)	(20,789,726)	(12,699,400)
Gross profit	(38,528)	2,227,981	(742,028)	6,078,497
Research and development expenses, net of tax credits and grants of $28,519 and ($5,428) (2018 - ($25,156) and $24,743)	(1,041,123)	(1,777,107)	(1,924,409)	(5,141,674)
Selling, general and administrative expenses	(13,156,063)	(4,078,377)	(35,267,384)	(11,420,069)
Impairment loss on goodwill (note 8)	(44,096,585)	—	(44,096,585)	—
Income (loss) from operating activities	(58,332,299)	(3,627,503)	(82,030,406)	(10,483,246)
Finance income (note 12)	42,288	120,021	352,747	201,435
Finance costs (note 12)	(611,526)	(89,201)	(445,970)	(372,217)
Change in fair value of contingent consideration (note 4)	64,509,107	—	60,425,887	—
	63,939,869	30,820	60,332,664	(170,782)
Income (loss) before income taxes	5,607,570	(3,596,683)	(21,697,742)	(10,654,028)
Income tax recovery (expense)	(4,996)	(61,344)	73,360	(153,918)
Net income (loss)	5,602,574	(3,658,027)	(21,624,382)	(10,807,946)
Other comprehensive income (loss)				
Unrealized gains on investment (note 16)	1,194,973	(2,837,867)	3,990,431	(811,989)
Net change in unrealized foreign currency losses on translation of net investments in foreign operations	(24,770)	—	(730,221)	—
Net change in unrealized losses on derivatives designated as cash flow hedges	—	(7,945)	—	(19,090)
Total other comprehensive income (loss)	1,170,203	(2,845,812)	3,260,210	(831,079)
Total comprehensive income (loss)	$ 6,772,777	$ (6,503,839)	$ (18,364,172)	$ (11,639,025)
Basic and diluted income (loss) per share	$ 0.06	$ (0.05)	$ (0.24)	$ (0.14)
Basic weighted average number of common shares (note 14)	93,622,893	79,903,031	88,280,012	79,396,216
Basic and diluted weighted average number of common shares (note 14)	97,175,070	79,903,031	88,280,012	79,396,216

(1) The Corporation has initially applied IFRS 16 as at April 1, 2019. Under the transition method chosen, comparative information is not restated. Refer to note 3.

See accompanying notes to unaudited consolidated interim financial statements.

NEPTUNE WELLNESS SOLUTIONS INC.

Consolidated Interim Statements of Changes in Equity
(Unaudited)

For the nine-month periods ended December 31, 2019 and 2018

	Attributable to equity holders of the Corporation							
	Share Capital				Accumulated other comprehensive income (loss)			
	Number	Dollars	Warrants	Contributed surplus	Investment in equity instruments	Cumulative translation account	Deficit	Total
Balance at March 31, 2019 [1]	79,987,292	$ 131,083,698	$ 648,820	$ 39,165,706	$ 758,066	$ —	$ (102,671,364)	68,984,926
Net loss for the period	–	–	–	–	–	–	(21,624,382)	(21,624,382)
Other comprehensive income for the period	–	–	–	–	3,990,431	(730,221)	–	3,260,210
Total comprehensive income (loss) for the period	–	–	–	–	3,990,431	(730,221)	(21,624,382)	(18,364,172)
Transactions with equity holders recorded directly in equity								
Contributions by and distribution to equity holders								
Share-based payment transactions (note 13)	–	–	–	13,238,674	–	–	–	13,238,674
Warrants exercised (note 11 (e))	750,000	3,176,320	(648,820)	–	–	–	–	2,527,500
Warrants in exchange of services rendered by nonemployees (note 11 (e))			1,053,419	–	–	–	–	1,053,419
Share options exercised (note 11 (a))	1,320,818	3,683,476	–	(1,198,081)	–	–	–	2,485,395
DSUs released (note 11 (b))	333,279	492,989	–	(492,989)	–	–	–	—
RSUs released, net of tax (note 11 (c))	246,361	1,625,266		(2,256,160)	–	–	–	(630,894)
Private placement, net of issuance costs (note 11 (f))	9,415,910	51,474,931	–	–	–	–	–	51,474,931
Business acquisition (notes 4 and 11 (g))	1,587,301	7,966,970	–	20,589,908	–	–	–	28,556,878
Provisions settled in shares (note 11 (d))	600,000	3,312,000	–	–	–	–	–	3,312,000
Total contributions by and distribution to equity holders	14,253,669	71,731,952	404,599	29,881,352	–	–	–	102,017,903
Balance at December 31, 2019	94,240,961	$ 202,815,650	$ 1,053,419	$ 69,047,058	$ 4,748,497	$ (730,221)	$ (124,295,746)	$ 152,638,657

[1] The Corporation has initially applied IFRS 16 as at April 1, 2019. Under the transition method chosen, comparative information is not restated. Refer to note 3.

See accompanying notes to unaudited consolidated interim financial statements.

NEPTUNE WELLNESS SOLUTIONS INC.

Consolidated Interim Statements of Changes in Equity, Continued
(Unaudited)

For the nine-month periods ended December 31, 2019 and 2018

	Attributable to equity holders of the Corporation							
	Share Capital				Accumulated other comprehensive loss			
	Number	Dollars	Warrants	Contributed surplus	Investment in equity instruments	Cash flow hedges	Deficit	Total
Balance at March 31, 2018	78,804,212	$ 128,483,507	$ 648,820	$ 36,355,549	$ 506,469	$ 19,090	$ (79,479,665)	$ 86,533,770
Net loss for the period	–	–	–	–	–	–	(10,807,946)	(10,807,946)
Other comprehensive loss for the period	–	–	–	–	(811,989)	(19,090)	–	(831,079)
Total comprehensive loss for the period	–	–	–	–	(811,989)	(19,090)	(10,807,946)	(11,639,025)
Transactions with equity holders recorded directly in equity								
Contributions by and distribution to equity holders								
Share-based payment transactions (note 13)	–	–	–	2,784,910	–	–	–	2,784,910
DSUs released (note 11 (b))	135,557	204,050	–	(204,050)	–	–	–	–
Share options exercised (note 11 (a))	1,017,908	2,337,593	–	(682,637)	–	–	–	1,654,956
Total contributions by and distribution to equity holders	1,153,465	2,541,643	–	1,898,223	–	–	–	4,439,866
Balance at December 31, 2018 [(1)]	79,957,677	$ 131,025,150	$ 648,820	$ 38,253,772	$ (305,520)	$ —	$ (90,287,611)	$ 79,334,611

(1) The Corporation has initially applied IFRS 16 as at April 1, 2019. Under the transition method chosen, comparative information is not restated. Refer to note 3.

See accompanying notes to unaudited consolidated interim financial statements.

NEPTUNE WELLNESS SOLUTIONS INC.

Consolidated Interim Statements of Cash Flows
(Unaudited)

For the three-month and nine-month periods ended December 31, 2019 and 2018

	Three-month periods ended		Nine-month periods ended	
	December 31, 2019	December 31, 2018 (1)	December 31, 2019	December 31, 2018 (1)
Cash flows used in operating activities:				
Net income (loss) for the period	$ 5,602,574	$ (3,658,027)	$ (21,624,382)	$ (10,807,946)
Adjustments:				
Depreciation of property, plant and equipment	774,872	622,489	2,204,512	1,747,634
Amortization of right-of-use assets (note 7)	103,804	—	274,022	—
Amortization of intangible assets (note 8)	1,677,108	181,263	3,293,678	543,789
Impairment loss on goodwill (note 8)	44,096,585	—	44,096,585	—
Stock-based compensation (note 13)	4,502,645	900,583	13,238,674	2,784,910
Non-employee compensation related to warrants	1,053,419	—	1,053,419	—
Recognition of deferred revenues	(1,436)	—	(25,070)	(107,635)
Amortization of deferred lease inducements	—	(14,839)	—	(44,517)
Net finance expense	569,238	(30,820)	93,223	170,782
Realized foreign exchange loss (gain)	(206,478)	(6,004)	89,324	(53,402)
Change in fair value of contingent consideration	(64,509,107)	—	(60,425,887)	—
Income taxes (recovery) expense	4,996	61,344	(73,360)	153,918
Net loss from sale of property, plant and equipment	4,396	—	4,396	32,333
	(6,327,384)	(1,944,011)	(17,800,866)	(5,580,134)
Changes in operating assets and liabilities (note 15 (a))	(3,673,407)	48,042	(7,673,907)	707,071
	(10,000,791)	(1,895,969)	(25,474,773)	(4,873,063)
Cash flows used in investing activities:				
Maturity of short-term investment	—	2,362,000	12,000	2,362,000
Interest received	42,288	62,746	125,091	196,926
Acquisition of a subsidiary, net of cash acquired (note 4)	—	—	(15,770,400)	—
Acquisition of property, plant and equipment	(3,736,054)	(2,070,876)	(8,698,304)	(5,929,622)
Acquisition of intangible assets	(135,571)	(204,355)	(306,004)	(357,492)
Proceeds from sale of property, plant and equipment	3,967	—	3,967	—
Sale of Acasti shares (note 16)	5,317,770	—	5,317,770	—
	1,492,400	149,515	(19,315,880)	(3,728,188)
Cash flows from financing activities:				
Variation of the bank line of credit (note 15 (c))	—	(590,000)	(620,000)	(490,000)
Repayment of loans and borrowings (note 15 (c))	—	(351,576)	(2,957,132)	(1,088,437)
Increase in loans and borrowings, net of financing fees (note 15 (c))	3,746,392	—	3,746,392	—
Payment of lease liabilities (note 7)	(103,299)	—	(279,322)	—
Interest paid	(65,082)	(73,131)	(263,344)	(224,897)
Private placement (note 11 (f))	—	—	53,970,867	—
Issuance of shares costs (note 11 (f))	13,726	—	(2,495,936)	—
Proceeds from exercise of warrants (note 11 (e))	—	—	2,527,500	—
Withholding taxes paid pursuant to the settlement of non-Treasury RSUs (note 11 (c))	(630,894)	—	(630,894)	—
Proceeds from exercise of options (note 11 (a))	2,150,194	239,504	2,485,395	1,654,956
	5,111,037	(775,203)	55,483,526	(148,378)
Foreign exchange gain (loss) on cash and cash equivalents held in foreign currencies	(182,799)	63,278	270,846	57,910
Net increase (decrease) in cash and cash equivalents	(3,580,153)	(2,458,379)	10,963,719	(8,691,719)
Cash and cash equivalents, beginning of period	24,363,223	18,053,767	9,819,351	24,287,107
Cash and cash equivalents, end of period	$ 20,783,070	$ 15,595,388	$ 20,783,070	$ 15,595,388
Cash and cash equivalents is comprised of:				
Cash	$ 20,783,070	$ 4,491,045	$ 20,783,070	$ 4,491,045
Cash equivalents	—	11,104,343	—	11,104,343

(1) The Corporation has initially applied IFRS 16 as at April 1, 2019. Under the transition method chosen, comparative information is not restated. Refer to note 3.

See accompanying notes to unaudited consolidated interim financial statements.

1. Reporting entity:

Neptune Wellness Solutions Inc. (the "Corporation" or "Neptune") is incorporated under the *Business Corporations Act* (Québec) (formerly Part 1A of the *Companies Act* (Québec)). The Corporation is domiciled in Canada and its registered office is located at 545 Promenade du Centropolis, Laval, Québec, H7T 0A3. The consolidated financial statements of the Corporation comprise the Corporation and its subsidiaries, Biodroga Nutraceuticals Inc. ("Biodroga"), SugarLeaf Labs, Inc. ("SugarLeaf"), 9354-7537 Québec Inc. and Neptune Holding USA, Inc.

Neptune specializes in the extraction, purification and formulation of health and wellness products. The Company has in excess of 100 customers across several verticals including nutraceutical, legal cannabis, hemp and consumer packaged goods. Neptune's wholly owned subsidiary, 9354-7537 Québec Inc., is licensed by Health Canada to process cannabis at its 50,000 square foot facility located in Sherbrooke, Quebec, Neptune brings decades of experience in the natural products sector to the legal cannabis industry. Through SugarLeaf, Neptune's wholly owned subsidiary, Neptune also has a U.S.-based hemp extract supply chain, including a 24,000 square foot cold ethanol processing facility. Neptune's activities also include the development and commercialization of turnkey nutrition solutions and patented ingredients such as MaxSimil®, and a variety of marine and seed oils.

2. Basis of preparation:

(a) Statement of compliance:

These consolidated interim financial statements have been prepared in accordance with IAS 34, *Interim Financial Reporting* of International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"), on a basis consistent with those accounting policies followed by the Corporation in the most recent audited consolidated annual financial statements, except as otherwise disclosed in note 3. Certain information, in particular the accompanying notes, normally included in the consolidated annual financial statements prepared in accordance with IFRS, has been omitted or condensed. Accordingly, the consolidated interim financial statements do not include all of the information required for full annual consolidated financial statements, and therefore, should be read in conjunction with the audited consolidated financial statements and the notes thereto for the year ended March 31, 2019.

The consolidated interim financial statements were approved by the Board of Directors on February 12, 2020.

(b) Basis of measurement:

The consolidated financial statements have been prepared on the historical cost basis, except for the following:

- Share-based compensation transactions which are measured pursuant to IFRS 2, *Share-Based Payment* (note 13);
- Acquisition of SugarLeaf including the acquired assets and liabilities and the related contingent consideration (note 4); and
- Financial asset which is measured at fair value (note 16).

Certain of the Corporation's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. In establishing fair value, the Corporation uses a fair value hierarchy based on levels as defined below:

- Level 1: defined as observable inputs such as quoted prices in active markets.
- Level 2: defined as inputs other than quoted prices in active markets that are either directly or indirectly observable.
- Level 3: defined as inputs that are based on little or no little observable market data, therefore requiring entities to develop their own assumptions.

(c) Functional and presentation currency:

These consolidated interim financial statements are presented in Canadian dollars, which is the functional currency of the parent company.

(d) Use of estimates and judgments:

The preparation of consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates are based on management's best knowledge of current events and actions that the Corporation 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 judgments in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements include the following:

- Assessing the recognition of contingent liabilities, which requires judgment in evaluating whether there is a probable outflow of economic benefits that will be required to settle matters subject to litigation (notes 10 and 16);
- Assessing if performance criteria on options and DSU will be achieved in measuring the stock-based compensation expense (note 13);
- Assessing the fair value of services rendered in exchange of warrants (note 11 (e));
- Assessing the recognition period to be used in recording stock-based compensation that is based on market and non-market conditions, as well as bonuses that are based on achievement of market capitalization targets (note 13); and
- Assessing the criteria for recognition of tax assets.

Assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year include the following:

- Estimating the recoverable amount of non-financial assets;
- Estimating the fair value of bonus and options that are based on market and non-market conditions (note 13 and 19);
- Estimating the fair value of the identifiable assets acquired, liabilities assumed and consideration transferred of the acquired business, including the related contingent consideration (note 4), and
- Estimating the litigation provision as it depends upon the outcome of proceedings (note 10).

3. Significant accounting policies:

The accounting policies and basis of measurement applied in these consolidated interim financial statements are the same as those applied by the Corporation in its consolidated financial statements for the year ended March 31, 2019, except as disclosed below.

New standards and interpretations adopted during the nine-month period ended December 31, 2019:

(a) Leases:

In January 2016, the IASB issued IFRS 16, *Leases*, which replaced IAS 17, *Leases*. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, the customer (lessee) and the supplier (lessor). IFRS 16 eliminates the classification of leases as either operating leases or finance leases, introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value.

The Corporation has adopted IFRS 16 using the modified retrospective method of adoption, with the effect of initially applying this standard recognized at the date of initial application, i.e. April 1, 2019. Under this method, the Corporation elected to measure right-of-use of asset as equal to lease liability, adjusted for amounts previously recorded for deferred lease inducements or prepaid rent as at the date of adoption. Accordingly, the cumulative effect of initially applying IFRS 16 is nil on the opening balance of retained earnings as at April 1, 2019. The comparative information has not been restated, i.e. it is presented, as previously reported, under IAS 17 and related interpretations.

Transition options and practical expedients

The Corporation has elected to apply the following transition options and practical expedients available under IFRS 16:

- Lease definition: to grandfather the assessment of which transactions are leases on the date of initial application. Accordingly, the Corporation applied IFRS 16 only to contracts that were previously identified as leases under IAS 17, *Leases*, and IFRIC 4, *Determining whether an Arrangement contains a Lease*, and applied the definition of leases under IFRS 16 only to contracts entered on or after the date of initial application;
- Short-term leases and leases of low-value items recognition exemptions: related lease payments are recognized as an expense on straight-line basis or another basis if that basis is more representative; and
- Leases with a short remaining term: when lease term ends within 12 months of the date of initial application, the lease may be classified as short-term leases.

The Corporation has elected not to apply the following transition options and practical expedients available under IFRS 16:

- Use of hindsight;
- Impairment and onerous leases;
- Initial direct costs;
- Discount rates; and
- Non-lease components.

Impact of adopting IFRS 16

The most significant impact as a result of adopting IFRS 16 related to the accounting for the Corporation's operating leases, as the nature of expenses related to most of the Corporation's leases changed as IFRS 16 replaced the straight-line operating lease expense with a depreciation charge for right-of-use assets and interest expense on lease liabilities.

Under IAS 17, the Corporation classified each of its leases at the inception date as either a finance lease or an operating lease, based on the extent to which risks and rewards of ownership were transferred to the Corporation. Most of the Corporation's leases were classified as operating leases as they did not transfer substantially all the risks and rewards of ownership to the Corporation. Lease payments related to the Corporation's operating leases were recognized as rent expense in the consolidated income statements on a straight-line basis over the lease term and presented as part of cash flows from operating activities in the consolidated statements of cash flows. Any prepaid rent and deferred lease inducements were recognized under "Prepaid expenses" and "Deferred lease inducements", respectively, in the consolidated statements of financial position as at March 31, 2019.

Upon adoption of IFRS 16, the Corporation recognized right-of-use assets for leases previously classified as operating leases. Right-of-use assets were measured for an amount equal to the lease liability adjusted for prepaid rent and deferred lease inducements. Lease liabilities were measured at the present value of the remaining lease payments on a discounted basis, using the incremental borrowing rate at the date of initial application.

The following table summarizes the impacts of adopting IFRS 16 on the Corporation's consolidated statement of financial position as at April 1, 2019:

Impact of adopting IFRS 16 as at April 1st, 2019	Note		Increase (decrease)
Assets			
Current assets:			
Prepaid expenses	(i)	$	(22,127)
Non-current assets:			
Right-of-use of assets	(ii)		1,176,744
Total assets		$	1,154,617
Liabilities			
Current liabilities:			
Lease liabilities	(ii)	$	334,872
Non-current liabilities:			
Lease liabilities	(ii)		1,027,490
Deferred lease inducements	(i)		(207,745)
Total liabilities and equity		$	1,154,617

(i) Prepaid expenses and deferred lease inducements related to previous operating leases were derecognized and netted against the right-of-use assets.
(ii) Lease liabilities of $1,362,362 and related right-of-use assets of $1,176,744 were recognized and presented separately on the consolidated statement of financial position. There was no adjustment from the adoption of IFRS 16 on the opening retained earnings as at April 1, 2019 due to the Corporation choice on transition method.

Reconciliation of operating lease commitments to lease liabilities recognized

When measuring lease liabilities, the Corporation discounted lease payments using its incremental borrowing rate as at April 1, 2019. The weighted average incremental borrowing rate applied as at April 1, 2019 was 5.14%. The lease liabilities as at April 1, 2019 can be reconciled to the operating lease commitments as at March 31, 2019 as follows:

Reconciliation of operating leases commitments to lease liabilities		
Operating lease commitments as at March 31, 2019	$	1,587,571
Non-lease components separated from lease components		(60,755)
Other		(15,189)
Effect of discounting		(149,265)
Discounted lease liabilities as at April 1st, 2019	$	1,362,362

Significant accounting policies

At inception, the Corporation assesses whether a contract is, or contains, a lease based on whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Corporation recognizes a right-of-use asset and a lease liability at the commencement date of the lease, i.e. the date the underlying asset is available for use.

The details of the new significant accounting policies in relation to the Corporation's leases are set out below.

Right-of-use assets

Right-of-use assets are measured at cost, less any accumulated depreciation and accumulated impairment losses, and adjusted for remeasurement of lease liabilities. Cost of right-of-use assets is comprised of:

- the initial measurement amount of the lease liabilities recognized;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred; and
- an estimate of costs to dismantle and remove the underlying asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease contract.

Right-of-use assets are depreciated on a straight-line basis over the lesser of i) the estimated useful life of the underlying assets; and ii) the lease term.

Lease liabilities

Lease liabilities are initially measured at the present value of the lease payments that are not paid at the commencement date over the lease term. The present value of the lease payments is determined using the lessee's incremental borrowing rate at the commencement date if the interest rate implicit in the lease is not readily determinable. The incremental borrowing rate is a function of the lessee's incremental borrowing rate, the nature of the underlying asset, the location of the asset, the length of the lease and the currency of the lease contract. Generally, the Corporation uses the lessee's incremental borrowing rate for the present value. At the commencement date, lease payments generally include fixed payments, less any lease incentives receivable, variable lease payments that depend on an index (e.g. based on inflation index) or a specified rate, lease extension options, if reasonably certain that it will be exercised, and payments of penalties for terminating the lease, if the lease term reflects the lessee exercising the option to terminate the lease. Lease payments also include amounts expected to be paid under residual value guarantees and the exercise price of a purchase option if the Corporation is reasonably certain to exercise that option.

Variable lease payments that do not depend on an index or a specified rate are not included in the measurement of lease liabilities but instead are recognized as expenses in the period in which the event or condition that triggers the payment occurs.

After the commencement date, the carrying amount of lease liabilities is increased to reflect the accretion of interest and reduced to reflect lease payments made. In addition, the carrying amount of lease liabilities is remeasured when there is a change in future lease payments arising from a change in an index or specified rate, if there is a modification to the lease terms and conditions, a change in the estimate of the amount expected to be payable under residual value guarantee, or if the Corporation changes its assessment of whether it will exercise a termination, extension or purchase option. The remeasurement amount of the lease liabilities is recognized as an adjustment to the right-of-use asset, or in the consolidated statement of earnings when the carrying amount of the right-of-use asset is reduced to zero.

Classification and presentation of lease-related expenses

Depreciation charge for right-of-use assets, expenses related to variable lease payments not included in the measurement of lease liabilities and loss (gain) related to lease modifications are allocated in the Corporation's consolidated statement of earnings based on their function within the Corporation, while interest expense on lease liabilities is presented within finance costs.

Cash flows classification

Lease payments related to the principal portion of the lease liabilities are classified as cash flows from financing activities and lease payments related to the interest portion of the lease liabilities are classified as interest paid within cash flows from financing activities. Lease incentives received are classified as cash flows from investing activities. Variable lease payments not included in the measurement of lease liabilities are classified as cash flows from operating activities.

Significant judgment in determining the lease term of contracts with extension options and termination options

The Corporation determines the lease term as the non-cancellable period of the lease, together with any periods covered by an option to extend the lease, if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised. The Corporation applies judgment in assessing whether it is reasonably certain to exercise its options to extend its leases or to not exercise its options to terminate its leases, by considering all facts and circumstances that create an economic incentive to exercise an extension option or not to exercise a termination option. The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the Corporation.

(b) Income tax:

On June 7, 2017, the IASB issued IFRIC 23, *Uncertainty over Income Tax Treatments* (the "Interpretation"). The Interpretation provided guidance on the accounting for current and deferred tax liabilities and assets in circumstances in which there is uncertainty over income tax treatments.

The Interpretation requires an entity to:

- Contemplate whether uncertain tax treatments should be considered separately, or together as a group, based on which approach provides better predictions of the resolution;
- Reflect an uncertainty in the amount of income tax payable (recoverable) if it is probable that it will pay (or recover) an amount for the uncertainty; and
- Measure a tax uncertainty based on the most likely amount or expected value depending on whichever method better predicts the amount payable (recoverable).

The Corporation has adopted the Interpretation which did not have an impact on the Corporation's consolidated financial statements.

(c) Basis of consolidation:

Subsidiaries

The Corporation's wholly-owned subsidiaries and their jurisdiction of incorporation are as follows:

Subsidiary	Jurisdiction of Incorporation
Biodroga Nutraceuticals Inc.	Quebec
SugarLeaf Labs, Inc.	Delaware (with a Certificate of Authority to operate in North Carolina)
Neptune Holding USA, Inc.	Delaware
9354-7537 Québec Inc.	Quebec

(d) Foreign currency:

Transactions in foreign currencies that are not hedged are translated to the respective functional currencies of the Corporation's subsidiaries at the average exchange rates for the period. The monetary assets and liabilities denominated in currencies other than the functional currency of a subsidiary are translated at the exchange rates prevailing at the statement of financial position date and translation gains and losses are included in the consolidated statement of earnings and comprehensive income (loss). Non-monetary items denominated in foreign currencies other than the functional currency are translated at historical rates.

The assets and liabilities of foreign operations, whose functional currency is not the Canadian dollar, are translated into Canadian dollars at the exchange rates in effect at the statement of financial position date. Revenue and expenses that are not hedged are translated at the exchange rate in effect on the date of the transaction. Differences arising from the exchange rate changes are included in other comprehensive income (loss) in the cumulative translation account.

On disposal of a foreign operation where control is lost, the cumulative amount of the exchange differences recognized in other comprehensive income (loss) relating to that particular foreign operation is recognized in the consolidated statement of earnings and comprehensive income (loss) as part of the gain or loss on disposal.

(e) Revenue:

Sale of products:

Revenue from the sale of goods in the course of ordinary activities is recognized at a point in time when control of the assets is transferred to the customer. The Corporation transfers control generally on shipment of the goods or in some cases, upon reception by the customer. Revenue is measured based on the consideration the Corporation expects to be entitled to receive in exchange of assets as specified in contracts with customers. For some arrangements in which the Corporation is entitled to non-cash consideration, revenue is measured at the fair value of exchanged assets as specified in contracts with customers. Revenue is presented net of returns.

Processing services:

The Corporation is involved in the extraction, purification and formulation of health and wellness products. Revenue earned on processing services is recognized as the services are rendered in accordance with contractual terms, recovery of the consideration is probable and the amount of revenue can be measured reliably. The Corporation recognizes revenue from processing services in proportion to the stage of completion of the service at the reporting date. The stage of completion is assessed based on surveys of work performed. All related production costs are expenses as incurred.

New standards and interpretations not yet adopted:

A number of new standards, and amendments to standards and interpretations, are not yet effective for the three-month and nine-month periods ended December 31, 2019, and have not been applied in preparing these consolidated interim financial statements. Management does not expect that any of the new standards and amendments to existing standards issued but not yet effective would have a material impact on the Corporation's consolidated financial statements.

4. Acquisition of SugarLeaf Labs:

On July 24, 2019, Neptune completed the acquisition of the assets of SugarLeaf. Neptune paid an initial consideration for SugarLeaf of $23,737,370 (US $18,062,220), a combination of $15,770,400 (US $12,000,000) in cash and $7,966,970 (US $6,062,220) or 1,587,301 in common shares. Additionally, by achieving certain annual adjusted earnings before interest, taxes, depreciation and amortization ("EBITDA") and other performance targets, earnouts could reach $173,474,400 (US $132,000,000). A portion of the earnout is to be paid by the issuance of a fixed number of shares upon the achievement of certain performance targets. The three additional earnout payments are to be paid over the next three years with a combination of cash or common shares, with at least 50% in cash.

As at September 30, 2019, the Corporation had included $114,965,763 as contingent consideration, which represented its fair value at the date of acquisition, net of the initial consideration paid. Of the total contingent consideration, an amount of $20,589,908 has been classified as contributed surplus, representing the fair value at the date of acquisition of the fixed number of shares that are required to be issued upon the achievement of certain performance targets. The contingent consideration classified as contributed surplus will not be remeasured and settlement is accounted for in equity. Contingent consideration of $94,375,855 was classified as a liability representing the present value of the expected payout in cash or a variable number of common shares for the earnouts of the next three years. The contingent consideration classified as a liability is required to be remeasured at fair value at each reporting date and subsequent changes to the fair value will be recognized in the statement of earnings. As at December 31, 2019, the fair value of the contingent consideration liability was revalued to $33,926,764 (refer to change in fair value of contingent consideration below)

The acquisition has been accounted for using the acquisition method with the results of the operations of SugarLeaf being included in the consolidated financial statements since the date of acquisition. The contingent consideration liability is included in Level 3 of the fair value hierarchy. The fair value is determined considering the expected earnout payments, discounted to present value using a risk-adjusted discount rate of 16% for cash based payments and 26.3% for earnout payments payable in cash or common shares. The risk-adjusted discount rate was calculated based on SugarLeaf's weighted average cost of capital. The key unobservable inputs used related to the risk-adjusted discount rate, forecasted sales growth and EBITDA, growth margin as well as projected selling, general and administrative expenses.

Varying the above risk-adjusted discount rate to reflect a 1% movement would have the following effects on the contingent consideration at the acquisition date, assuming that all other variables remained constant:

		Increase		Decrease
Effect of change in assumption on:				
Contingent consideration - Classified as a liability	$	(1,076,784)	$	1,105,768
Contingent consideration - Classified as contributed surplus		(55,764)		56,704
	$	(1,132,548)	$	1,162,472

The initial cash consideration of this transaction was funded with the proceeds of the private placement. On July 18, 2019, the Corporation completed a private placement of 9,415,910 common shares with both existing and new institutional investors resulting in gross proceeds to the Corporation of approximately $53,970,867 (US $41,430,004). Transaction costs related to the Private Placement amounted to approximately $2,509,662 million resulting in net proceeds of $51,461,205 (note 11 (f)).

The following table summarizes the purchase price of the acquisition, the fair value of the identifiable assets acquired and liabilities assumed as of the acquisition date:

Assets acquired		
Trade and other receivables	$	151,178
Inventories		1,130,965
Property and equipment		2,007,322
Right-of-use asset		499,797
Customer relationships		9,173,116
Farmer relationships		12,208,918
		25,171,296
Liabilities assumed		
Trade and other payables	$	125,956
Lease liability		522,843
		648,799
Net assets acquired		24,522,497
Goodwill		115,746,998
Gross purchase consideration	$	140,269,495
Less: Settlement of pre-existing relationship		(1,566,362)
Purchase price	$	138,703,133
Consist of:		
Cash	$	15,770,400
Common shares		7,966,970
Contingent consideration - Classified as a liability		94,375,855
Contingent consideration - Classified as contributed surplus		20,589,908
Purchase price	$	138,703,133

Through SugarLeaf, Neptune establishes a U.S.-based hemp extract supply chain, gaining a 24,000 square foot facility located in North Carolina. SugarLeaf's cold ethanol processing facility uses hemp cultivated by licensed American growers to yield high-quality full and broad-spectrum hemp extracts.

The 2018 Farm Bill, which was signed into law on December 20, 2018, amended federal law to provide that all parts of the cannabis plant (including its cannabinoids, derivatives and extracts) containing a delta-9 THC concentration of not more than 0.3% on a dry weight basis would be classified as hemp and would no longer be considered controlled substances. However, despite the passage of the 2018 Farm Bill, there remains a patchwork of Federal and State legislation and uncertainties in their application that could materially impact the Company's business and financial condition. Additionally, demand for products containing cannabis, hemp or their derivatives is dependent on a number of social, political and economic factors that are beyond the Company's control, each of which could cause price fluctuations or decreases in market demand or supply that could adversely affect the Company's business, financial condition, results of operations and prospects.

From the date of acquisition, the SugarLeaf business has contributed $520,868 and $772,755, respectively, to the consolidated revenue for the three-month and nine-month periods ended December 31, 2019 and $3,014,382 and $4,324,970 of net loss to the consolidated net income (loss) from operations excluding the impairment loss on goodwill for the three-month and nine-month periods ended December 31, 2019 of the Corporation. Had this business acquisition been effected as at the beginning of the 2020 fiscal year, management estimates that the Corporation’s consolidated revenues for the nine-month period ended December 31, 2019 would have been approximately $20,327,252, respectively, and the consolidated net income (loss) from operations excluding the impairment loss on goodwill for the nine-month period would have been approximately $38,054,360. The Corporation considers these pro-forma figures to represent an initial approximate measure of the performance of the combined Corporation and to provide an initial reference point of comparisons in future periods. In determining these amounts, management has assumed the fair value adjustments, and acquisition costs related to this business combination, would have been the same as if the acquisition would have occurred on April 1st, 2019.

Neptune and SugarLeaf were parties to a pre-existing agreement under which Neptune made prepayments for the purchase of product from SugarLeaf of $1,566,362. The pre-existing relationship was effectively terminated when Neptune acquired SugarLeaf.

Acquisition-related costs for the three-month and nine-month periods ended December 31, 2019 of $51,073 and $2,210,727, respectively, have been excluded from the consideration transferred and have been recognized as an expense within selling, general and administrative expenses in the consolidated statement of earnings and comprehensive income (loss) and within the corporate segment.

The fair value, as well as the gross amount of the trade accounts receivable amount to $151,178 of which a negligible amount was expected to be uncollectible at the acquisition date.

The goodwill recognized in connection with this acquisition is primarily attributable to synergies with existing business, and other intangibles that do not qualify for separate recognition including assembled workforce. Goodwill has been allocated to the cannabis segment, which represents the lowest level at which goodwill is monitored internally. Goodwill and intangible assets are deductible for income tax purposes.

As at December 31, 2019, this purchase price allocation is preliminary. The final purchase price allocation could result in changes to the fair value of assets acquired and liabilities assumed.

Change in fair value of contingent consideration liability:

Balance at March 31, 2019	$	–
Additions through a business combination		94,375,855
Change in fair value		(60,425,887)
Effect of movements in exchange rates		(23,204)
Balance at December 31, 2019	$	33,926,764

The contingent consideration liability is included in Level 3 of the fair value hierarchy. The fair value of the contingent liability was remeasured as at 31 December 2019 which included consideration of revised expected earnout payments, discounted at 15.0% for payments to be paid in cash (16.0% at acquisition) and 20.0% for payments to be paid in cash or in shares (26.3% at acquisition). The risk-adjusted discount rates were calculated based on SugarLeaf’s weighted average cost of capital and incorporate risk factors specific to each category of contingent consideration. The decrease in risk-adjusted discount rates from the acquisition date is due to the decrease in the inherent risk of the projected cash flows used to estimate payments.

The key unobservable inputs used related to the risk-adjusted discount rate, forecasted sales growth and EBITDA, growth margin as well as projected selling, general and administrative expenses. The forecasted sales growth and EBITDA decreased from those used at the date of acquisition due to a decline in hemp derived CBD refined oil pricing to $2,500 per kilogram ($5,000 at acquisition) as well as a decrease in forecasted sales volumes.

Varying the above risk-adjusted discount rate to reflect a 1% movement would have the following effects on the contingent consideration at December 31, 2019, assuming that all other variables remained constant:

	Increase	Decrease
Effect of change in assumption on:		
Contingent consideration - Classified as a liability	$ (513,566)	$ 526,400

Varying the above hemp derived CBD refined oil pricing to reflect a 10% movement in the price would have the following effects on the contingent consideration at December 31, 2019, assuming that all other variables remained constant:

	Increase	Decrease
Effect of change in assumption on:		
Contingent consideration - Classified as a liability	$ 8,301,000	$ (8,301,000)

5. Inventories:

	December 31, 2019	March 31, 2019
Raw materials	$ 4,507,058	$ 3,410,613
Work in progress	2,700,882	281,027
Finished goods	3,076,469	635,914
Supplies and spare parts	673,316	710,607
	$ 10,957,725	$ 5,038,161

Cost of sales for the three-month period ended December 31, 2019 was comprised of inventory costs of $8,861,289 (2018 - $4,172,428), and other costs of $351,648 (2018 - $137,759).

Cost of sales for the nine-month period ended December 31, 2019 was comprised of inventory costs of $19,903,482 (2018 - $12,330,188) and other costs of $886,244 (2018 - $369,212).

6. Property, plant and equipment:

	Land	Building and building components	Laboratory, R&D and plant equipment	Furniture, and office equipment	Computer equipment	Total
Net carrying amounts:						
March 31, 2019	$ 228,630	$ 21,230,473	$ 25,289,413	$ 119,839	$ 155,618	$ 47,023,973
December 31, 2019	228,630	27,369,776	29,548,392	249,270	254,469	57,650,537

During the nine-month period ended December 31, 2019, the Corporation recorded additions of $1,161,182 for buildings components, $753,189 for plant equipment, $90,237 for furniture and office equipment and $2,714 for computer equipment related to the business acquisition (refer to note 4).

7. Leases:

The Corporation has entered into lease contracts mainly for its premises, which expire through the year 2024.

(a) Right-of-use assets

		Buildings		Equipment		Total
Balance as at April 1st, 2019	$	1,138,729	$	38,015	$	1,176,744
Business acquisition (note 4)		499,797		–		499,797
Additions		–		54,063		54,063
Depreciation for the period		(266,660)		(8,880)		(275,540)
Effect of movements in exchange rates		(4,263)		–		(4,263)
Balance as at December 31, 2019	$	1,367,603	$	83,198	$	1,450,801

Depreciation of right-of-use assets is included in the consolidated interim statement of earnings and comprehensive income (loss) in the following captions:

		Three-month period ended December 31, 2019		Nine-month period ended December 31, 2019
Included in cost of sales	$	22,774	$	37,008
Included in general and administrative expenses		81,030		237,014
Total depreciation	$	103,804	$	274,022

The Corporation recorded a revenue of $27,835 and $87,129, respectively, for the three-month and nine-month periods ended December 31, 2019 from subleasing right-of-use of assets. There is no contract related to this sublease between the Corporation and the third party. Therefore, there is no lease term. Moreover, revenue varies depending on the use that is made by the third party.

(b) Lease liabilities

The following table summarizes the lease liabilities amounts recognized in the consolidated interim statement of financial position as at December 31, 2019:

		December 31, 2019
Current	$	428,017
Non-current		1,225,662

The following table summarizes changes to the lease liabilities for the nine-month period ended December 31, 2019:

		Nine-month period ended December 31, 2019
Balance as at April 1st, 2019	$	1,362,362
Business acquisition (note 4)		522,843
Additions		54,063
Payments		(279,322)
Effect of movements in exchange rate		(6,297)
Balance as at December 31, 2019	$	1,653,649

(c) Cash outflow for leases recognized in the consolidated interim statement of cash flows

		Three-month period ended December 31, 2019		Nine-month period ended December 31, 2019
Operating activities:				
Cash outflow for non-lease components not included in the measurement of lease liabilities	$	(4,563)	$	(13,689)
Cash inflow for income from sublease		27,835		87,129
	$	23,272	$	73,440
Financing activities:				
Cash outflow for principal portion of lease liabilities	$	(103,299)	$	(279,322)
Cash outflow for interest portion of lease liabilities - included within interest paid		(31,719)		(75,565)
	$	(135,018)	$	(354,887)
Total net cash outflow for leases	$	(111,746)	$	(281,447)

Interest expense on leases liabilities for the three-month and nine-month periods ended December 31, 2019 of respectively $31,719 and $75,565 is presented under finance costs (note 12).

Expense for non-lease components presented in selling, general and administrative expenses amounted to $4,563 and $13,689 respectively for the three-month and nine-month periods ended December 31, 2019.

(d) Maturity analysis – contractual undiscounted cash flows

		December 31, 2019
Less than 1 year	$	545,510
Between 1 and 5 years		1,386,746
More than 5 years		–
Total contractual undiscounted cash flows of lease liabilities	$	1,932,256

8. Intangible assets:

	Goodwill	Customer relationships	Farmer relationships	License agreements	Computer software	Total
Cost:						
Balance at March 31, 2019	$ 6,750,626	$ 4,100,000	$ —	$ 5,051,643	$ 373,100	$ 16,275,369
Additions through a business acquisition (note 4)	115,746,998	9,173,116	12,208,918	—	—	137,129,032
Other additions	—	—	—	110,879	29,360	140,239
Effect of movements in exchange rates	(1,338,597)	(106,096)	(141,208)	—	—	(1,585,901)
Balance at December 31, 2019	$ 121,159,027	$ 13,167,020	$ 12,067,710	$ 5,162,522	$ 402,460	$ 151,958,739
Accumulated amortization and impairment loss:						
Balance at March 31, 2019	$ —	$ 1,330,771	$ —	$ 533,278	$ 10,096	$ 1,874,145
Amortization for the period	—	692,101	1,704,282	840,166	57,129	3,293,678
Impairment loss	44,096,585	—	—	—	—	44,096,585
Effect of movements in exchange rates	(779,639)	(6,806)	(22,918)	—	—	(809,363)
Balance at December 31, 2019	$ 43,316,946	$ 2,016,066	$ 1,681,364	$ 1,373,444	$ 67,225	$ 48,455,045
Net carrying amounts:						
March 31, 2019	$ 6,750,626	$ 2,769,229	$ —	$ 4,518,365	$ 363,004	$ 14,401,224
December 31, 2019	77,842,081	11,150,954	10,386,346	3,789,078	335,235	103,503,694

During the nine-month period ended December 31, 2019, the Corporation recorded additions of $12,208,918 for farmer relationships and $9,173,116 for customer relationships related to the business acquisition (refer to note 4). All additions are amortizable based on useful lives over a period of 10 years for customer relationships and 3 years for farmer relationships.

An impairment test of goodwill is performed on an annual basis, or more frequently if an impairment indicator is triggered. Impairment is determined by assessing the recoverable amount of the group of cash-generating units ("CGU") to which goodwill is allocated and comparing it to the CGUs' carrying amount. For the purpose of impairment testing, this represents the lowest level within the Corporation at which the goodwill is monitored for internal management purposes.

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

	December 31, 2019	March 31, 2019
Biodroga - Nutraceutical segment	$ 6,750,626	$ 6,750,626
SugarLeaf - Cannabis segment	71,091,455	—
	$ 77,842,081	$ 6,750,626

During the third quarter of 2020, management determined there was an impairment indicator due to a decline in hemp derived CBD refined oil pricing as well as a decrease in forecasted sales volumes for the SugarLeaf CGU. The recoverable amount of the SugarLeaf CGU was determined using the value in use basis, and was determined to be lower than the carrying value, resulting in a goodwill impairment loss of $44,096,585.

The value in use was estimated using discounted cash flow forecasts with a discount rate of 20%. The discount rate represents the weighted average cost of capital ("WACC") for comparable companies operating in similar industries as the CGU, based on publicly available information.

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 CGU.

Cash flows were projected using actual operating results, past experience and four-year financial budgets that reflect current economic conditions and include a terminal growth rate of 2%.

The assumptions used by the Corporation in the value in use model are classified as Level 3 in the fair value hierarchy. The model is particularly sensitive to the future expected cash flows in the upcoming periods, should these not be realized, an impairment loss may be needed in future periods.

9. Loans and borrowings:

This note provides information about the contractual terms of the Corporation's loans and borrowings, which are measured at amortized cost.

	December 31, 2019	March 31, 2019
Loans and borrowings:		
Revolving facility of $5,000,000 secured through a first-ranking mortgage on all movable assets of Biodroga current and future, corporeal and incorporeal, and tangible and intangible. The Corporation is subject to certain financial covenants under this secured facility. As at December 31, 2019, Neptune was in compliance with these financial covenants. Amounts are net of transaction costs of $94,975. (i)	$ 3,755,025	$ —
Loan, bearing interest at prime rate plus 1.70%, secured through a first-ranking mortgage on all movable assets of Biodroga current and future, corporeal and incorporeal, and tangible and intangible, reimbursed during the period.	—	2,846,501
Authorized bank line of credit of $2,500,000 bearing interest at prime rate plus 0.50%, reimbursed and extinguished during the period.	—	620,000
	3,755,025	3,466,501
Less current portion of loans and borrowings	3,755,025	3,466,501
Loans and borrowings	$ —	$ —

(i) During the three-month period ended December 31, 2019, Neptune closed a revolving line of credit with a large Canadian financial institution for an amount of $5 million to support the nutraceutical segment. As at December 31, 2019, the Corporation has drawn a loan of $350,000, bearing interest at prime rate plus 1.45% and banker's acceptances for $3,500,000 with maturity dates from March 3, 2020 to June 1, 2020. The banker's acceptances bear interest at banker's acceptances rate at issuance plus 2.45%.

Some of the proceeds resulting from the private placement (refer to note 11 (f)) were used to completely reimburse the loan and the bank line of credit during the nine-month period ended December 31, 2019.

10. Provisions:

(a) During the year ended March 31 ,2019, the Corporation received a judgment from the Superior Court of Québec (the "Court") regarding certain previously disclosed claims made by a corporation controlled by the Corporation's former chief executive officer (the "Former CEO") against the Corporation in respect of certain royalty payments alleged to be owed and owing to the Former CEO pursuant to the terms of an agreement entered into on February 23, 2001 between Neptune and the Former CEO (the "Agreement"). The Corporation had also filed a counterclaim against the Former CEO disputing the validity and interpretation of certain clauses contained in the Agreement and claiming the repayment of certain amounts previously paid to the Former CEO pursuant to the terms of the Agreement. Under the terms of the Agreement, it was alleged by the Former CEO that annual royalties be payable to the Former CEO, with no limit to its duration, of 1% of the sales and other revenues made by Neptune; the interpretation of which was challenged by the Corporation.

Pursuant to the judgment rendered on March 21, 2019, which Neptune has appealed, the Court ruled in favour of the Former CEO and rejected the counterclaim filed by the Corporation. As a result, the Court awarded the Former CEO payments determined by the Court to be owed under the Agreement of 1% of all sales and revenues of the Corporation incurred since March 1, 2014, which final payments remain to be determined taking into account interest, judicial costs and other expenses. The Court also declared that, pursuant to the terms of the Agreement, the royalty payments of 1% of the future sales and other revenue made by the Corporation on a consolidated basis are to be payable by the Corporation to the Former CEO biannually, but only to the extent that the cost of the royalty would not cause the Corporation to have a negative earnings before interest, taxes and amortization (in which case, the payments would be deferred to the following fiscal year).

A litigation provision of $2,130,074 was recorded in the consolidated statement of financial position in the year ended March 31, 2019 to cover the estimated cost of the judgement in accordance with the ruling above, including legal and administrative proceedings, and also estimated legal fees for the appeal. During the three-month and nine-month periods ended December 31, 2019, the Corporation paid nil and $1,202,666 respectively related to the portion of the judgment not contested by Neptune and also paid legal fees for the appeal. During the three-month and nine-month periods ended December 31, 2019, an additional amount of $71,914 and $212,658 respectively has been recorded as a provision for royalty payments owed on consolidated revenues and as expenses related to the litigation. The provision recorded for this litigation is $1,009,702 as at December 31, 2019.

The timing of cash outflows of litigation provision is uncertain as it depends upon the outcome of the appeal. Management does not believe it is possible to make assumptions on the evolution of the cases beyond the statement of financial position date.

On May 17, 2019, the Corporation's *Motion for leave to appeal* was presented to a judge of the Québec Court of Appeal, who expressed the opinion that the Corporation could appeal without necessity of obtaining leave. In order to ensure the protection of the Corporation's rights, the judge deferred the motion to the panel who will hear the merits of the appeal. The Corporation filed its appeal factum on July 30, 2019 and the Former CEO filed his appeal on September 30, 2019.

(b) In addition to the above, the Former CEO of the Corporation was claiming the payment of approximately $8,500,000 and the issuance of equity instruments for severance entitlements under his employment contract terminated in April 2014. On May 10, 2019, Neptune announced a settlement regarding these claims. Pursuant to the agreement, Neptune agreed to issue 600,000 common shares from treasury (in accordance with securities regulation) and transfer 2,100,000 shares of Acasti held by the Corporation to the Former CEO. As at March 31, 2019, the common shares of Acasti transferable to the Former CEO of $2,835,000 were presented as current other assets in the statement of financial position (note 16). In addition, Neptune agreed to reimburse nominal legal fees.

As at March 31, 2019, a provision of $5,834,502 was recorded in the consolidated statement of financial position relating to this settlement. During the nine-month period ended December 31, 2019, the 2,100,000 shares in Acasti held by the Corporation were transferred and the 600,000 common shares from treasury were issued to the Former CEO. Neptune received full and final release on all claims in connection with this case.

11. Capital and other components of equity:

(a) Share options exercised:

During the nine-month period ended December 31, 2019, Neptune issued 1,320,818 common shares of the Corporation upon exercise of options at a weighted average exercise price of $1.88 per common share for a total cash consideration of $2,485,395.

During the nine-month period ended December 31, 2018, Neptune issued 1,017,908 common shares of the Corporation upon exercise of options at a weighted average exercise price of $1.63 per common share for a total cash consideration of $1,654,956.

(b) DSUs released:

During the nine-month period ended December 31, 2019, Neptune issued 333,279 common shares of the Corporation to former Chief Executive Officer at a weighted average price of $1.48 per common share for past services.

During the nine-month period ended December 31, 2018, Neptune issued 135,557 common shares of the Corporation to former members of the Board of Directors at a weighted average price of $1.51 per common share for past services.

(c) RSUs released:

During the nine-month period ended December 31, 2019, Neptune issued 246,361 common shares of the Corporation to the CEO as part of his employment agreement at a weighted average price of $5.80 per common share. Withholding taxes of $630,894 were paid pursuant to the issuance of these RSUs resulting in the Corporation not issuing an additional 142,529 RSUs.

(d) Provision and liability settled in shares:

During the nine-month period ended December 31, 2019, Neptune issued 600,000 common shares of the Corporation to the Former CEO of the Corporation as part of a settlement regarding severance entitlements under his employment contract terminated in April 2014 (refer to note 10 (b)).

During the nine-month period ended December 31, 2018, Neptune issued 630,681 common shares of the Corporation at a price of $1.35 per common share as final payment of a liability of $858,000 (US$625,000). Total issuance costs related to this transaction amounted to $9,930 and were recorded against share capital.

(e) Warrants:

The warrants of the Corporation are composed of the following as at December 31, 2019 and March 31, 2019:

			December 31, 2019			March 31, 2019
	Number of outstanding	Number of vested	Amount	Number of outstanding	Number of vested	Amount
Warrants IQ financing (i)	—	—	$ —	750,000	750,000	$ 648,820
Warrants IFF (ii)	2,000,000	—	229,159	—	—	—
Warrants AMI (iii)	3,000,000	156,250	824,260	—	—	—
	5,000,000	156,250	$ 1,053,419	750,000	750,000	$ 648,820

(i) During the nine-month period ended December 31, 2019, Neptune issued 750,000 common shares of the Corporation for warrants exercised for a total cash consideration of $2,527,500.

(ii) During the nine-month period ended December 31, 2019, Neptune granted 2,000,000 warrants with an exercise price of US$12.00 expiring on November 7, 2024. The warrants, granted in exchange for services to be rendered by nonemployees, vest in four equal biannual installments. As at December 31, 2019, the fair value of the services to be rendered has been estimated using the warrant valuation via the Black-Scholes option pricing model to be $1.6 million (US$1.2 million) of which $229,159 was recognized as an expense during the three-month period ended December 31, 2019. Each quarter-end, the fair value of the non vested warrants will be revaluated.

(iii) During the nine-month period ended December 31, 2019, Neptune granted 3,000,000 warrants with an exercise price of US$8.00 expiring on October 3, 2024. The warrants, granted in exchange for services to be rendered by non-employees, vest proportionally to the services rendered. The fair value of the warrants is based on the fair value of the services which are reliably measurable. The fair value has been estimated to $15.8 million (US$12 million) of which $824,260 was recognized as an expense during the three-month period ended December 31, 2019.

(f) Private placement:

On July 18, 2019, Neptune completed a private placement of 9,415,910 common shares of the Corporation at a purchase price of US$4.40 per common share for total gross proceeds to the Corporation of $53,970,867 (US$41,430,004). Total issue costs related to this transaction amounted to $2,509,662 and were recorded against share capital.

(g) SugarLeaf Acquisition:

On July 24 2019, as part of the initial consideration paid for the acquisition of SugarLeaf, Neptune issued 1,587,301 common shares of the Corporation for total consideration of $7,966,970, representing the fair value of the common shares at the date of acquisition (refer to note 4).

12. Finance income and finance costs:

(a) Finance income:

	Three-month periods ended		Nine-month periods ended	
	December 31, 2019	December 31, 2018	December 31, 2019	December 31, 2018
Interest income	$ 42,288	$ 62,746	$ 125,091	$ 196,926
Foreign exchange gain	—	57,275	227,656	4,509
Finance income	$ 42,288	$ 120,021	$ 352,747	$ 201,435

(b) Finance costs:

	Three-month periods ended		Nine-month periods ended	
	December 31, 2019	December 31, 2018 (1)	December 31, 2019	December 31, 2018 (1)
Interest charges and other finance costs	$ (63,275)	$ (89,201)	$ (336,140)	$ (372,217)
Penalty on debt reimbursement	—	—	(34,265)	—
Interest on lease liabilities (note 7)	(31,719)	—	(75,565)	—
Foreign exchange loss	(516,532)	—	—	—
Finance costs	$ (611,526)	$ (89,201)	$ (445,970)	$ (372,217)

(1) The Corporation has initially applied IFRS 16 as at April 1, 2019. Under the transition method chosen, comparative information is not restated. Refer to note 3.

13. Share-based payments:

At December 31, 2019, the Corporation had the following share-based payment arrangements:

(a) Corporation stock option plan:

(i) Stock option plan:

The Corporation has established a stock option plan for directors, employees and consultants. Awards under the plan grants a participant the right to purchase a certain number of Common Shares, subject to certain conditions described below, at an exercise price equal to at least 100% of the Market Price (as defined below) of the Common Shares on the grant date. The “Market Price” of Common Shares as of a particular date shall generally mean the volume weighted average trading price of the Common Shares (VWAP), calculated by dividing the total value by the total volume of Common Shares traded for a relevant period on the TSX (and if listed on more than one stock exchange, then the highest of such closing prices) during the last ten (10) Business Days prior to the Grant Date (10-day VWAP). The terms and conditions for exercising options and purchasing the underlying Common Shares are set by the Board of Directors, and subject to, among others, the following limitations: the term of the options cannot exceed ten years and every stock option granted under the stock option plan will be subject to conditions no less restrictive than a minimum vesting period of 18 months with gradual and equal acquisition vesting on no less than a quarterly basis; the Corporation can issue a number of Common Shares not exceeding 25% of the number of Common Shares issued and outstanding at the time of any grant pursuant to the stock option plan; the total number of Common Shares issuable to a single holder pursuant to the stock option plan cannot exceed 20% of the Corporation’s total issued and outstanding Common Shares at the time of the grant, with the maximum of 2% for any one consultant.

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

		2019		2018
	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options
Options outstanding at April 1, 2019 and 2018	$ 2.02	9,651,085	$ 1.92	10,091,546
Granted	5.87	1,347,939	4.56	258,062
Exercised (note 11 (a))	1.88	(1,320,818)	1.66	(717,908)
Forfeited [i]	2.41	(764,179)	4.65	(26,000)
Options outstanding at December 31, 2019 and 2018	$ 2.59	8,914,027	$ 2.00	9,605,700
Options exercisable at December 31, 2019 and 2018	$ 2.13	4,371,584	$ 1.95	2,245,639

(i) On July 8, 2019, Neptune announced the appointment of its new Chief Executive Officer (CEO) and Member of the Board of Directors. Jim Hamilton stepped down from his role as CEO. According to his amended employment agreement, the former CEO is entitled to his unvested options that vest on a pro-rata basis as of his termination employment date. As a result of applying the clauses of this agreement, 638,493 of his outstanding unvested options vested with an accelerated vesting date and 510,794 of his unvested options were forfeited at the separation date resulting in a stock-based compensation expense of $32,854.

The Vice-President & Chief Financial Officer (CFO) of the Corporation left the Corporation with an effective date of November 11, 2019. According to his separation agreement, the former Vice-President and CFO is entitled to his unvested options with accelerated vesting date. In the previous quarter end, an expense of $264,274 was recorded related to this accelerated vesting date.

The fair value of options granted with no performance conditions has been estimated according to the Black-Scholes option pricing model and based on the weighted average of the following assumptions for options granted to employees during the periods ended:

	Nine-month period ended December 31, 2019	Nine-month period ended December 31, 2018
Exercise price	$ 5.87	$ 4.56
Share price	$ 5.47	$ 4.81
Dividend	–	–
Risk-free interest	1.54%	1.96%
Estimated life (years)	4.29	3.50
Expected volatility	63.56%	54.13%

The weighted average fair value of the options granted to employees during the nine-month period ended December 31, 2019 is $2.53 (2018 - $2.04). There were respectively 25,000 and 100,000 options granted to a non-employee for past services during the three-month and nine-month period ended December 31, 2019 (2018 – nil).

Stock-based compensation recognized under this plan amounted to $844,171 and $3,369,157, respectively, for the three-month and nine-month periods ended December 31, 2019 (2018 - $881,952 and $2,656,066).

(ii) Non-market performance options:

On July 8, 2019, the Corporation granted 3,500,000 non-market performance options under the Corporation stock option plan at an exercise price of US$4.43 per share to the new 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 in the previous shareholders meeting and therefore the fair value of these options was revaluated on the shareholders meeting date. None of these non-market performance options have vested as at December 31, 2019.

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

		2019	
		Weighted average exercise price	Number of options
Options outstanding at April 1, 2019	$	—	—
Granted		5.90	3,500,000
Options outstanding at December 31, 2019	$	5.90	3,500,000

The fair value of the CEO non-market performance options granted has been estimated according to the Black-Scholes option pricing model based at the grant date using the following assumptions for options:

		Nine-month period ended December 31, 2019
Exercise price	$	5.90
Share price	$	5.90
Dividend		–
Risk-free interest		1.59%
Estimated life (years)		10
Expected volatility		69.00%

The expected volatility was based on the average of the historical volatility and the implied volatility which is based on 2-year at the money options of the Corporation's stock.

The weighted average fair value of the non-market performance options granted to the CEO during the nine-month period ended December 31, 2019 is $4.40.

The fair value at grant date is $15.4 million and the period over which the expense is being recognized was initially up to 9.7 years. As at December 31, 2019, a change in the estimated probability of achievement of the non-market performance conditions resulted in a reversal of expense related to the last tranche not expected to vest, and the recognition of the expense related to the two first tranches over a longer number of years, ranging from 2.8 to 8.7 years.

Stock-based compensation recognized under this plan amounted to $7,400 and $1,020,135, respectively, for the three-month and nine-month periods ended December 31, 2019 (2018 - nil). Unrecognized compensation cost at December 31, 2019 is $14.4 million.

(iii) Market performance options:

On July 8, 2019, the Corporation granted 5,500,000 market performance options under the Corporation stock option plan at an exercise price of US$4.43 per share to the new CEO, expiring on July 8, 2029. These options vest after the attainment of market performance conditions within the following ten years. Some of these market performance options required the approval of amendments to the stock option plan in the previous shareholders meeting and therefore the fair value of these options was revaluated on the shareholders meeting date. As at December 31, 2019, 750,000 market performance options had vested.

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

	2019		2018	
	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options
Options outstanding at April 1, 2019 and 2018	$ 1.55	25,000	$ 1.55	325,000
Granted	5.88	5,500,000	—	—
Exercised (note 11 (a))	—	—	1.55	(282,600)
Options outstanding at December 31, 2019 and 2018	$ 5.86	5,525,000	$ 1.55	42,400
Options exercisable at December 31, 2019 and 2018	$ 5.66	775,000	$ 1.55	42,400

The fair value of market performance options granted has been estimated according to a risk-neutral Monte Carlo simulation pricing model based on the grant date following assumptions for options granted to the CEO:

	Nine-month period ended December 31, 2019
Exercise price	$ 5.88
Share price	$ 5.88
Dividend	—
Risk-free interest	1.69%
Estimated life (years)	10
Expected volatility	68.13%

The expected volatility was based on the average of the historical volatility and the implied volatility which is based on 2-year at the money options of the Corporation's stock.

The weighted average fair value of the non-market performance options granted to the CEO during the nine-month period ended December 31, 2019 is $4.29.

The fair value at grant date is $23.6 million and the period over which the expense is being recognized is 9.78 years and will be recognized regardless of whether the market conditions are achieved.

Stock-based compensation recognized under this plan amounted to $773,291 and $1,490,131, respectively for the three-month and nine-month periods ended December 31, 2019 (2018 - nil and $40,942). Unrecognized compensation cost at December 31, 2019 is $22.1 million.

(b) Deferred Share Unit (''DSUs'') and Restricted Share Unit (''RSUs''):

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

			2019			2018
		Weighted average share price	Number of DSUs		Weighted average share price	Number of DSUs
DSUs outstanding at April 1, 2019 and 2018	$	1.56	448,387	$	1.50	570,752
Granted		5.60	8,924		3.79	19,788
Forfeited		1.63	(73,840)		—	—
Released through the issuance of common shares (note 11 (b))		1.48	(333,279)		1.51	(135,557)
DSUs outstanding at December 31, 2019 and 2018	$	2.75	50,192	$	1.60	454,983
DSUs exercisable at December 31, 2019 and 2018	$	2.31	43,499	$	1.43	276,844

Of the 50,192 DSUs outstanding as at December 31, 2019, 6,596 DSUs vested upon achievement of performance conditions, 15,520 DSUs vested upon services to be rendered during a period of twelve months from date of grant and 28,076 vested DSUs were granted for past services. The fair value of the DSUs is determined to be the share price at the date of grant and is recognized as stock-based compensation, through contributed surplus, over the vesting period.

The weighted average fair value of the DSUs granted during the nine-month period ended December 31, 2019 was $5.60 (2018 - $3.79).

Stock-based compensation recognized under this plan amounted to $24,345 and ($17,179), respectively, for the three-month and nine-month periods ended December 31, 2019 (2018 - $18,631 and $87,902).

As part of the employment agreement of the new CEO, the Corporation granted RSUs which vest over three years in 36 equal instalments. The fair value of the RSUs is determined to be the share price at the date of grant and is recognized as stock-based compensation, through contributed surplus, over the vesting period. The fair value of the RSUs granted during the nine-month period ended December 31, 2019 was $5.80 per unit.

			2019
		Weighted average share price	Number of RSUs
RSUs outstanding at April 1, 2019	$	—	—
Granted		5.80	2,800,000
Released through the issuance of common shares (note 11 (c))		5.80	(246,361)
Withheld as payment of withholding taxes (note 11 (c))		5.80	(142,529)
RSUs outstanding at December 31, 2019	$	5.80	2,411,110
RSUs exercisable at December 31, 2019	$	5.80	77,778

Stock-based compensation recognized under this plan amounted to $2,853,437 and $7,376,429, respectively, for the three-month and nine-month periods ended December 31, 2019 (2018 - nil). Unrecognized compensation cost at December 31, 3019 is $8.9 million.

Stock-based compensation is included in the consolidated interim statement of earnings and comprehensive income (loss) in the following captions:

	Three-month periods ended		Nine-month periods ended	
	December 31, 2019	December 31, 2018	December 31, 2019	December 31, 2018
Included in cost of sales	$ (14,870)	$ —	$ 162,254	$ —
Included in selling, general and administrative expenses	4,417,526	623,331	12,805,407	1,983,307
Included in research and development expenses	99,989	277,252	271,013	801,603
Total stock-based compensation	$ 4,502,645	$ 900,583	$ 13,238,674	$ 2,784,910

14. Income (loss) per share:

The following table provides a reconciliations between the number of basic and diluted shares outstanding:

	Three-month periods ended		Nine-month periods ended	
	December 31, 2019	December 31, 2018	December 31, 2019	December 31, 2018
Weighted average number of common shares	93,622,893	79,903,031	88,280,012	79,396,216
Dilutive effect of stock options	3,507,066	—	—	—
Dilutive effect of deferred share units	45,111	—	—	—
Weighted average number of diluted shares	97,175,070	79,903,031	88,280,012	79,396,216
Number of anti-dilutive stock options, deferred share units, restricted share units and warrants excluded from diluted earnings per share calculation	17,977,510	—	—	—

Stock options, deferred share units, restricted share units and warrants could be dilutive in the future.

15. Supplemental cash flow disclosure:

(a) Changes in operating assets and liabilities:

	Three-month periods ended		Nine-month periods ended	
	December 31, 2019	December 31, 2018	December 31, 2019	December 31, 2018
Trade and other receivables	$ (1,411,273)	1,040,951	$ (2,234,052)	$ 1,692,699
Tax credits receivable	—	(446)	—	12,311
Prepaid expenses	(299,565)	(212,112)	(2,128,177)	(576,205)
Inventories	(2,015,535)	305,779	(4,877,592)	(598,989)
Trade and other payables and other liability	(19,119)	(902,868)	2,534,216	109,851
Provisions	71,914	—	(1,332,874)	—
Deferred revenues	171	(183,262)	364,572	67,404
Changes in operating assets and liabilities	$ (3,673,407)	$ 48,042	$ (7,673,907)	$ 707,071

(b) Non-cash transactions:

	Nine-month periods ended	
	December 31, 2019	December 31, 2018
Acquired property, plant and equipment included in trade and other payables	$ 3,517,540	$ 371,745
Intangible assets included in trade and other payables	758,952	2,297,027
Intangible assets included in long-term payable	471,948	960,962
Provision settled in shares of the Corporation (note 11 (d))	3,312,000	—
Deferred lease inducements against right-of-use assets for IFRS 16 transition (note 3)	207,745	—
Prepaid rent applied against right-of-use assets for IFRS 16 transition (note 3)	22,127	—
Settlement of pre-existing relationship included in prepaid expenses (note 4)	1,230,652	—
Common shares of Acasti held by the Corporation transferred to settle provision (note 11 (d))	2,310,000	—

(c) Reconciliation of movements of liabilities to cash flows arising from financing activities:

		Cash used in financing activities		Non-cash changes	
	Balance as at March 31, 2019	Proceeds	Repayments	Financing and discounted fees	Balance as at December 31, 2019
Loan	$ 2,846,501	$ 3,746,392	$ (2,957,132)	$ 119,264	$ 3,755,025
Bank line of credit	620,000	–	(620,000)	–	–
Total long-term debt	$ 3,466,501	$ 3,746,392	$ (3,577,132)	$ 119,264	$ 3,755,025

16. Financial instruments:

Financial assets and liabilities measured at fair value on a recurring basis are the investment in Acasti Pharma Inc. ("Acasti") and contingent consideration (refer to note 4).

As at December 31, 2019, the Corporation has 1,000,000 common shares of Acasti (5,064,694 as at March 31, 2019). The fair value of the investment in Acasti was determined to be $3,200,000 or $3.20 per share as at December 31, 2019 ($6,837,337 or $1.35 per share as at March 31, 2019). During the nine-month period ended December 31, 2019, 2,100,000 Acasti shares held by the Corporation were transferred to settle a litigation with the Former CEO (refer to note 10 (b)) with a change in fair value loss of $525,000 and 1,964,694 Acasti shares held by the Corporation were sold for net proceeds of $5,317,770 and a change in fair value loss of $896,313. The net change in fair value of the investment including any gain of loss on the transfer or sale of the shares amounted to a $1,194,973 and $3,990,431 gain, respectively, for the three-month and nine-month period ended December 31, 2019 and was recognized in other comprehensive income (loss).

The Corporation has determined that the carrying values of its short-term financial assets and liabilities approximate their fair value given the short-term nature of these instruments. The carrying value of the short-term investment also approximates its fair value given the short-term maturity of the reinvested funds.

17. Commitments and contingencies:

(a) Commitments:

(i) As at December 31, 2016, Neptune entered into an exclusive commercial agreement for a speciality ingredient for a period of 11 years. According to this agreement, Neptune has to pay royalties on sales. To maintain the exclusivity, Neptune must reach minimum annual volumes of sales for the duration of the agreement for which minimum volumes are being reached. The corresponding total remaining amount of minimum royalties is $5,720,367 (US$4,403,670). On November 2, 2017, Neptune entered into another exclusive commercial agreement for the same speciality ingredient in combination with cannabinoids coming from cannabis or hemp for a period of 11 years with minimum annual volumes of sales starting in 2019 corresponding to total royalties of $1,560,000 to maintain the exclusivity.

(ii) On December 21, 2018, Neptune entered into a 5 year IP licencing and capsule agreement with Lonza. All royalties based on net sales of capsules greater than the minimum volume requirements will be recorded as incurred in cost of goods sold.

(iii) Capital expenditures of $6,900,000 were approved by the Board for Phase 2 capacity expansion. As at December 31, 2019, Neptune signed various capital expenditure contracts related to this second investment amounting to $5,087,573 of which $4,420,804 has been paid and $666,769 is included in trade and other payables. Capital expenditures of $10,600,000 were approved by the Board for Phase 3A capacity expansion. As at December 31, 2019, Neptune signed various capital expenditure contracts related to this project investment amounting to $6,435,405 of which $1,746,541 has been paid and $3,085,325 is included in trade and other payables.

(iv) During the year ended March 31, 2019, the Corporation has entered into a contract for security of its cannabis manufacturing facility. This contract will give rise to annual expense of approximately $172,000 for the next 5 years. The Corporation also entered into a contract for EU GMP consultation and various other contracts. The remaining commitment related to those contracts amounts to $1,418,606.

(v) As at December 31, 2019, the Corporation has signed agreements with various partners to execute research and development projects for a total remaining amount of $703,362.

(b) Contingencies:

In the normal course of operations, the Corporation is involved in various claims and legal proceedings. The most significant of which are as follows:

(i) On March 21, 2019, the Corporation received a judgment from the Superior Court of Québec (the "Court") regarding certain previously disclosed claims made by a corporation controlled by the Former CEO against the Corporation in respect of certain royalty payments alleged to be owed and owing to the Former CEO pursuant to the terms of an agreement entered into on February 23, 2001 between Neptune and the Former CEO (the "Agreement"). The Court declared that under the terms of the agreement, the Corporation should pay royalties of 1% of its revenues in semi-annual instalments, for an unlimited period. Some of the terms of this agreement are being disputed. Based on currently available information, a provision of $1,009,702 has been recognized (refer to note 10 (a)) for this claim as of December 31, 2019.

(ii) The Corporation initiated arbitration in August 2014 against a krill oil customer that owed approximately $4,806,000 (US$3,700,000). The full amount of trade receivable was written-off in February 2015. This customer is counterclaiming a sum in damages. During the year ended March 31, 2019, the counterclaim amount was amended to $183 million (AUD$201 million). The Corporation intends to continue to pursue its claim for unpaid receivable and to vigorously defend against this amended counterclaim. Arbitration for the hearing occurred in July 2019. The Corporation is waiting for the arbitral award. Based on currently available information, no provision has been recognised for this case as at December 31, 2019.

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

18. Operating segments:

The Corporation's reportable segments are the nutraceutical and the cannabis segments. The nutraceutical segment offers turnkey solutions including services such as raw material sourcing, formulation, quality control and quality assurance primarily for omega-3 and hemp-derived ingredients under different delivery forms such as softgels, capsules and liquids. In the cannabis segment, Neptune provides extraction and purification services from cannabis and hemp biomass. The Company also offers formulation and manufacturing solutions for value added product forms such as tinctures, sprays, topicals, vapor products and edibles and beverages.

Information regarding the results of each reportable segment is included below. Performance is measured based on segment income (loss) before corporate expenses, as included in the internal management reports that are reviewed by the Corporation's Chief Operating Decision Maker, as management believes that such information is the most relevant in evaluating the results of our segments relative to other entities that operate within these industries. Due to the impairment of goodwill and change in fair value of the contingent consideration in the Cannabis segment during the quarter, performance is now measured using segment income (loss) before corporate expenses. The prior periods did not require adjustments as the only difference between the prior measure of "segment income (loss) from operating activities before corporate expenses" and the new measure of "segment income (loss) before corporate expenses" is the change in fair value of contingent consideration which only occurred in fiscal 2020.

The Sherbrooke and North Carolina facilities are used for the extraction, purification and formulation of cannabis and hemp oil extracts and are presented under the cannabis segment information.

(a) Information about reportable segments:

Three-month period ended December 31, 2019:

	Nutraceutical	Cannabis	Corporate	Total
Revenue from external sales, royalties and other revenues	$ 6,335,923	$ 2,810,651	$ 27,835	$ 9,174,409
Gross profit	1,867,216	(1,933,579)	27,835	(38,528)
Research and development expenses net of credits and grants	(252,375)	(788,748)		(1,041,123)
Selling, general and administrative expenses	(1,198,804)	(3,264,144)		(4,462,948)
Impairment loss on goodwill	—	(44,096,585)		(44,096,585)
Segment income (loss) from operating activities	416,037	(50,083,056)	27,835	(49,639,184)
Change in fair value of contingent consideration	—	64,509,107		64,509,107
Segment income before corporate expenses	416,037	14,426,051	27,835	14,869,923
Unallocated costs:				
Corporate general and administrative expenses			(8,693,115)	(8,693,115)
Net finance costs			(569,238)	(569,238)
Income tax expense			(4,996)	(4,996)
Net income				5,602,574
Depreciation and amortization	(169,656)	(2,261,135)	(124,993)	(2,555,784)
Stock-based compensation	(120,523)	(211,488)	(4,170,634)	(4,502,645)
Reportable segment assets	22,418,757	160,616,244	24,507,802	207,542,803
Reportable segment goodwill	6,750,626	71,091,455	—	77,842,081
Reportable segment liabilities	7,351,693	42,807,250	4,745,203	54,904,146

Three-month period ended December 31, 2018:

	Nutraceutical	Cannabis	Corporate	Total
Revenue from external sales and royalties	$ 6,538,168	$ —		$ 6,538,168
Gross profit	2,227,981	—		2,227,981
Research and development expenses net of credits and grants	(130,405)	(1,646,702)		(1,777,107)
Selling, general and administrative expenses	(1,203,067)	(497,045)		(1,700,112)
Segment income (loss) before corporate expenses	894,509	(2,143,747)		(1,249,238)
Unallocated costs:				
Corporate general and administrative expenses			$ (2,378,265)	(2,378,265)
Net finance income			30,820	30,820
Income tax expense			(61,344)	(61,344)
Net loss				(3,658,027)
Depreciation and amortization	(187,914)	(560,675)	(55,163)	(803,752)
Stock-based compensation	(125,708)	(277,252)	(497,623)	(900,583)
Reportable segment assets	21,097,207	49,433,716	22,084,585	92,615,508
Reportable segment goodwill	6,750,626	—	—	6,750,626
Reportable segment liabilities	7,721,642	3,619,992	1,939,263	13,280,897

Nine-month period ended December 31, 2019:

	Nutraceutical	Cannabis	Corporate	Total
Revenue from external sales, royalties and other revenues	$ 15,778,331	$ 4,069,087	$ 200,280	$ 20,047,698
Gross profit	4,813,019	(5,755,327)	200,280	(742,028)
Research and development expenses net of credits and grants	(420,441)	(1,503,968)		(1,924,409)
Selling, general and administrative expenses	(3,341,502)	(5,340,366)		(8,681,868)
Impairment loss on goodwill	—	(44,096,585)		(44,096,585)
Segment income (loss) from operating activities	1,051,076	(56,696,246)	200,280	(55,444,890)
Change in fair value of contingent consideration	—	60,425,887		60,425,887
Segment income before corporate expenses	1,051,076	3,729,641	200,280	4,980,997
Unallocated costs:				
Corporate general and administrative expenses			(26,585,516)	(26,585,516)
Net finance costs			(93,223)	(93,223)
Income tax recovery			73,360	73,360
Net loss				(21,624,382)
Depreciation and amortization	(506,076)	(4,897,222)	(368,914)	(5,772,212)
Stock-based compensation	(362,555)	(825,584)	(12,050,535)	(13,238,674)
Reportable segment assets	22,418,757	160,616,244	24,507,802	207,542,803
Reportable segment goodwill	6,750,626	71,091,455	—	77,842,081
Reportable segment liabilities	7,351,693	42,807,250	4,745,203	54,904,146

Nine-month period ended December 31, 2018:

	Nutraceutical	Cannabis	Corporate	Total
Revenue from external sales and royalties	$ 18,777,897	$ —		$ 18,777,897
Gross profit	6,078,497	—		6,078,497
Research and development expenses net of credits and grants	(316,001)	(4,825,673)		(5,141,674)
Selling, general and administrative expenses	(3,386,407)	(1,472,600)		(4,859,007)
Segment income (loss) before corporate expenses	2,376,089	(6,298,273)		(3,922,184)
Unallocated costs:				
Corporate general and administrative expenses			$ (6,561,062)	(6,561,062)
Net finance costs			(170,782)	(170,782)
Income tax expense			(153,918)	(153,918)
Net loss				(10,807,946)
Depreciation and amortization	(562,047)	(1,571,233)	(158,143)	(2,291,423)
Stock-based compensation	(369,348)	(801,603)	(1,613,959)	(2,784,910)
Reportable segment assets	21,097,207	49,433,716	22,084,585	92,615,508
Reportable segment goodwill	6,750,626	—	—	6,750,626
Reportable segment liabilities	7,721,642	3,619,992	1,939,263	13,280,897

(b) The Corporation derives sales revenue from the sales of goods which are recognized at a point in time and the processing services which are recognized over time as follows:

		Three-month periods ended		Nine-month periods ended	
	Segment	December 31, 2019	December 31, 2018	December 31, 2019	December 31, 2018
At a point in time					
Nutraceutical products	Nutraceutical	$ 5,996,180	$ 6,132,217	$ 14,748,419	$ 17,613,772
Cannabis and hemp products	Cannabis	145,178	—	204,309	—
Over time					
Processing services	Cannabis	2,665,473	—	3,864,778	—
		$ 8,806,831	$ 6,132,217	$ 18,817,506	$ 17,613,772

(c) Geographical information:

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

					Three-month period ended December 31, 2019			Three-month period ended December 31, 2018
	Nutraceutical	Cannabis	Royalties	Corporate	Total revenues	Nutraceutical	Royalties	Total revenues
Canada	$ 2,609,184	$ 2,289,783	$ 19,481	$ 27,835	$ 4,946,283	$ 2,399,807	$ 938	$ 2,400,745
United States	3,301,364	520,868	320,262	—	4,142,494	3,400,462	405,013	3,805,475
Other countries	85,632	—	—	—	85,632	331,948	—	331,948
	$ 5,996,180	$ 2,810,651	$ 339,743	$ 27,835	$ 9,174,409	$ 6,132,217	$ 405,951	$ 6,538,168

	Nutraceutical	Cannabis	Royalties	Corporate	Nine-month period ended December 31, 2019 Total revenues	Nutraceutical	Royalties	Nine-month period ended December 31, 2018 Total revenues
Canada	$ 6,417,670	$ 3,296,332	$ 63,920	$ 200,280	$ 9,978,202	$ 6,389,366	$ 3,220	$ 6,392,586
United States	8,214,602	772,755	965,992	—	9,953,349	9,676,305	1,160,905	10,837,210
Other countries	116,147	—	—	—	116,147	1,548,101	—	1,548,101
	$ 14,748,419	$ 4,069,087	$ 1,029,912	$ 200,280	$ 20,047,698	$ 17,613,772	$ 1,164,125	$ 18,777,897

The Corporation's property is mainly located in Canada and United States of America.

(d) Non cash-consideration:

During the three-month and nine-month periods ended December 31, 2019, the Corporation realized revenues for non-cash consideration amounting to nil and $168,955, respectively (2018 – nil).

19. Related parties:

Key management personnel compensation:

The key management personnel are the officers of the Corporation and members of the Board of Directors. They control 10% of the voting shares of the Corporation.

Key management personnel compensation includes the following for the three-month and nine-month periods ended December 31, 2019 and 2018:

	Three-month periods ended		Nine-month periods ended	
	December 31, 2019	December 31, 2018	December 31, 2019	December 31, 2018
Short-term benefits	$ 1,109,114	$ 578,835	$ 2,935,685	$ 1,880,968
Share-based compensation costs	4,272,371	734,517	12,417,997	2,314,897
Severance (i)	—	—	272,788	—
Long-term incentive (ii)	407,543	—	913,690	—
	$ 5,789,028	$ 1,313,352	$ 16,540,160	$ 4,195,865

(i) In the three-month and nine-month periods ended December 31, 2019, an expense of nil and $272,788 respectively, was recorded related to the change in the management team as part termination severance.

(ii) In the three-month and nine-month periods ended December 31, 2019, an expense of $407,543 and $913,690, respectively, was recorded related to long-term incentive. The payable related to this long-term incentive of $1,050,215 was calculated using a discount rate of 2.5% and is presented under Other liability in the consolidated statement of financial situation. According to the employment agreement with the CEO, a long-term incentive of $20 million (US$15 million) is payable if the Corporation's US market capitalization is at least $1.3 billion (US$1 billion) during its term agreement. Based on the risk-neutral Monte Carlo simulation, the Corporation could reach this market capitalization in 7.3 years and therefore the incentive is being recognized over the estimated period to achievement of 7.3 years.

20. Subsequent event:

On February 5, 2020, Neptune expanded its strategic partnership with American Media, where American Media will provide advertising and creative services to Neptune to support the marketing and commercialization of Neptune's Ocean Remedies™ brand in the U.S. According to the terms of the agreement, American Media will provide Neptune with marketing and creative services valued at US$4.7 million in exchange for 1,175,000 warrants which Neptune will issue to American Media. Each warrant gives the holder the right to purchase one common share of Neptune at an exercise price of $US 8.00 per share and with an expiration date of 5-years. The issuance of these warrants is subject to the Toronto Stock Exchange approval.