



Dear Investors,

It gives me great satisfaction to report Neptune reached a pivotal turning point in the second quarter of fiscal 2021.

We have never been stronger financially, never been as cost-efficient, never grown so much in a single quarter, never been closer to consumers, never had better strategic partners and never been safer. And we have just gotten started.

In a short period of time, our new world-class management team has executed on our shift from a B2B extraction company to a fully integrated health and wellness platform with a dual go-to-market approach that delivers B2B and B2C products to millions of consumers around the globe. This unique business approach allows us to leverage our leading product offerings – from extraction, to distribution of household name consumer product goods – while also opening new distribution channels for our own brands.

Despite the decline in global economic activity since the outbreak of COVID-19, the metamorphic and successful steps we have taken during this difficult economic period have increased sales, distribution and reach at B2B and B2C segments in the consumer-packaged goods market

Simultaneously, we have also transformed our business operations. We reduced our headcount by 25% in September to increase efficiencies and future profitability and expect meaningful improvement in our margins during the second half of fiscal 2021.

We also recently succeeded in our petition to decertify the union representing employees at our facility in Sherbrooke, Quebec. This trend will increase operational key performance indicators, such as revenue per employee, with a potential four-fold increase of efficiency for 2021 compared with fiscal 2020.

Investments in products and new channels

We continue to build a broad portfolio of natural, plant-based, and sustainable brands and CPG products in key health and wellness markets, including hemp, nutraceuticals, personal care and home care.

We have partnered with a leading CPG company to expand our distribution channel in the personal care and hygiene product lines and expect this to generate \$65 million to \$137 million in revenue over the next 18 months. This deal will serve consumers at wholesale and retail levels, as we are now a U.S. and Canadian master distributor for our partners' products, including hand cleaning wipes and hand sanitizing wash and gels, across commercial, industrial and institutional channels.

Because of our expertise in distribution and channel management, the result of strategic best-in-class hires over the past six months, we expect to expand our reach into major North American retailers to create new and additional distribution opportunities for our branded consumer packaged goods products. We now have agreements with national retailers in the club store channel, International Flavors and Fragrances, a leading global CPG company that markets more than 400 brands, Albertson's, and Amazon.

With the global cannabis market projected to be a more than \$100 billion industry by 2024, we launched a strategic business initiative to redefine consumption in the sector as it gains unprecedented momentum. Our R&D team has done a tremendous job identifying cannabis/hemp as a super ingredient that can be applied to build consumer offerings, including household and personal care products.

As we further expand our Intellectual Property in cannabis space through clinical and consumer behavior studies, we have identified world-class leading opportunities to change consumer habits through the creation and distribution of environmentally friendly, ethical and innovative consumer product goods to make households safer, healthier and more effective. We have moved from an investment phase to a focused execution phase. Neptune is committed to focus on its core mission to help humanity thrive – and survive – by providing sustainable CPG solutions.

Cannabis offerings continue to be highly regulated, but we recently receive Health Canada authorization to sell cannabis products to provinces and territories. This sales license includes edibles, extracts and topical products and allows us to expand our cannabis operations to include our Mood Ring brand and future proprietary branded products. The Mood Ring product line will be available to Ontario's 211 licensed private retailers. Together with British Columbia, this extends Neptune's reach to at least 515 Canadian retailers. The initial Mood Ring product rollout will include quality High CBD Oil, High CBD Capsules, Classic Hashish and Legacy Hashish.

We can bring products to market faster and more efficiently than our competition because we have scale from our owned and operated facilities that extract and create product formulation, all the way to the sales floor at top global retailers. In preparation for potential U.S. cannabis legalization under federal law, we are proactively primed for mass distribution. Our Mood Ring line positions us to scale our owned and operated brands to introduce additional cannabis products to complement our hemp and essential oil lines.

Wellness brands expansion

We believe we stand on the edge of a plant-based transformation driven by consumer demand. Overall cannabis acceptance is high across generations, and consumers demand affordable, accessible, sustainable and high-quality cannabis-based products. More than 40 countries now explore a legal cannabis framework. We have made the proper long-term investments in education and marketing to be the market leader to deliver these products around the world.

Plant-based solutions in many areas including beauty and personal care products matter more now than ever due to more consumers becoming increasingly conscious about synthetic skincare

ingredients in their everyday personal care products. This category alone represents a multi-billion-dollar opportunity.

We leverage our science-based properties of cannabis to expand into everyday products, everything from toothpastes to deodorants to hand sanitizers. The cannabis plant has tremendous anti-bacterial, antifungal, moisturizing and disinfectant properties that we will use in everyday household items, including personal and skincare products. We want our customers to feel the benefit of cannabis with every product they touch, from the time they wake up until they go to sleep. Our pipeline of products over the next two years will reflect this.

A great example of how we have expanded into plant-based product lines is the collaboration with legendary animal behavior expert and conservationist Dr. Jane Goodall under the Forest Remedies™ brand. The “Wonders of Africa Essential Oil Kit” celebrates Dr. Goodall’s remarkable passion and work. It includes four essential oils all sourced from Africa and features citronella, ginger, ylang-ylang, and frankincense to promote balance, harmony and vibrance.

This exclusive line of natural, plant-based wellness products is what we call a partnership for change. It directly supports the legendary conservationist’s efforts to create a better world for all living things.

Neptune is fully aligned with Goodall’s approach to creating a sustainable world for generations to come, where consumers want more ecological products and corporations, like Neptune, have a moral responsibility to minimize their environmental impact. That is why with every purchase, we donate 5% of the sale price to the Jane Goodall Institute and its mission to protect wildlife and empower local communities.

It’s not just a duty, it’s good for business too; we know through our own research consumers want to support companies that take a stand on urgent social and environmental issues. Neptune is committed to focus on its mission to help humanity thrive – and survive – by providing sustainable CPG solutions.

Rising Revenue

- Total revenues for the three-month period ended September 30, 2020 increased 340% to about \$28.7 million compared to \$6.5 million in the same period the prior year. On a sequential basis, compared to the restated first quarter of fiscal 2021, revenue increased 155%. Year to date in FY2021, revenues now total \$40.0 millions, compared to \$10.9 million, an increase of 267% from the same period the prior year. The increases for the three-month and six-month periods ended September 30, 2020 were mainly attributable to new health & wellness products (with increases of \$17.2 million and \$18.5 million respectively), namely thermometers and hand sanitizer, and the cannabis related products that were a non-significant portion of the revenues in the first half of the previous fiscal year (with increases of \$5.7 million and \$10.4 million respectively).
- Gross profits for the three-month period ended September 30, 2020 decreased to a loss of \$4.6 million, compared to a profit of \$9,000 in the prior year period and a profit of \$3.3 million in the first quarter of fiscal 2021. The decline in gross margin is a reflection of the

strategic decision to invest in the company as we position ourselves for strong long-term growth. Furthermore, Neptune launched numerous new products since the beginning of fiscal 2021, causing high production ramp-up costs to temporarily reduce the gross margin of those new products; the situation is expected to stabilize over the course of the next few quarters.

- Net loss for the quarter ended September 30, 2020 amounted to \$21.8 million compared to a net loss of \$20.8 million for the quarter ended September 30, 2019, for an increase of about \$1.1 million. The increase is attributable mainly to the decrease in gross margin (\$4.6 million) and the increase in SG&A expenses (\$1.7 million), partly offset by the decrease by \$2.4 million in net finance costs and by a \$2.8 million increase in income tax recovery.
- Adjusted EBITDA loss was \$12.9 million for the three-month period ended September 30, 2020 compared to a loss of \$4.6 million in the prior year period. The decline in adjusted EBITDA is mainly attributable to the change in net loss (increase of \$1.1 million), the decrease in acquisition costs (\$1.8 million), in stock-based compensation (\$5.2 million), in excluded net finance costs (\$2.4 million) and in income tax recovery (\$2.8 million), partly offset by the costs related to a one-time cybersecurity incident (\$2.0 million), the increase in non-employees compensation related to warrants (\$2.5 million), and in depreciation and amortization (\$0.7 million). When reconciling Adjusted EBITDA to the net loss, you will see that there was \$5.5 million in non-cash transactions that were adjusted out of EBITDA, and only \$3.5 million of the adjustments that did touch the Company's liquidities, including a little less than \$2.0 million for a cybersecurity incident that was resolved by Neptune with no expected material effect on its operations going forward.
- Cash and cash equivalents were \$9.1 million as of September 30, 2020. Subsequent to quarter-end, we completed a US\$35 million private placement for working capital and other general corporate purposes. We also recently announced we have entered into a US\$45 million credit facility with Perceptive Advisors to support the fulfilment of a large purchase order placed by one of our customers. This product is being sourced by us from an overseas supplier and we are thrilled to have the support from Perceptive, which is a recognized leader in growth capital financing, to support the increasing demand for our products.

We have the ability to achieve profitable rate of return for many years to come. Our ongoing transformation has us well-positioned to dramatically expand our product offerings and global reach with our B2B and B2C business plan. We remain supremely confident in our ability to continue to gain market share by focusing on the core Neptune principles to innovate, transform, disrupt, be entrepreneurial and continue to be one-of-a-kind in the health and wellness space while changing consumer habits around the world.

We will simultaneously and aggressively pursue new revenue opportunities with our shareholders and investors at the heart of what we do. By doing so, Neptune will change consumption patterns with environmentally friendly and innovative products so our customers can live longer and feel better. And together, we can build a more sustainable world.

MICHAEL CAMMARATA
CHIEF EXECUTIVE OFFICER & PRESIDENT
NEPTUNE WELLNESS SOLUTIONS INC.