



# FOCUS : CORE

2018 ANNUAL REPORT



# HERE FOR YOUR HEALTH™ SINCE 1922

Since the beginning, we have not wavered on our promise to improve  
the world's health and wellness – through all stages of life.



# THRIVING IN 2018

Upholding our foundation, we are known for our trusted products. Our ability to keep successfully innovating. And our track record of constant expansion.









# NOURISHING THE FUTURE

Going forward, we expect our growth to be just as remarkable as it was in 2018. And our focus will be just as resolute.





## Letter from the CEO

Dear Fellow Shareholders:

For nearly a century, Jamieson's vision has focused on improving the world's health and wellness. I am proud to report that in 2018 we continued to successfully execute this vision, expanding our reach across our distribution channels, brands and geographical footprints.

Throughout 2018, our team worked diligently and successfully to achieve our targeted growth and profitability metrics. We increased our revenue by 6% (or 11% excluding the IFRS 15 revenue recognition impact) and our Adjusted EBITDA by 10%. We grew our Strategic Partners business by 19.5% and implemented new structure and leadership in our Specialty Brands division to position it for future growth.

Much of our strength in this record-breaking year came from our core, including our heritage Jamieson brand both domestically and internationally, and our industry-leading product innovation. We reinforced our leadership in our core Canadian market with the introduction of 35 new Jamieson branded products to the category. We broadened our global distribution and grew across key international markets. In China, we received several new product registrations and our pipeline of additional product introductions to the domestic market remains strong. We also began to establish our Jamieson brand in India, Macedonia and Croatia, and expanded our relationships with key partners in existing markets. These advancements translated into an impressive 8.5% domestic branded growth and 30% branded growth internationally.

As we enter 2019, our goals remain robust. We intend to further expand our domestic market leadership and accelerate growth in our Specialty Brands. We anticipate significant further growth of our international sales and plan to further leverage our industry leading quality, innovation and manufacturing capabilities in the pursuit of profitable expansion. We forecast continued revenue growth across Canada and internationally, and the exploration of additional channel opportunities, including e-commerce.

On behalf of the management team, I can proudly say that Jamieson Wellness is well-positioned to continue its global vision, and we look forward to delivering another year of profitable growth in 2019.

A large, stylized handwritten signature in white ink, which appears to be 'Mark Hornick'. The signature is fluid and extends across the width of the page.

**MARK HORNICK**  
President and Chief Executive Officer





## Letter from the Chairman

Dear Fellow Shareholders:

2018 was another year of accomplishments, both financially and organizationally. We delivered impressive revenue and Adjusted EBITDA growth and increased our quarterly dividend by 12.5%. Our Adjusted Earnings Per Share rose a remarkable 22%!

From a governance perspective we're proud of the positive impact our policies have had on our operations throughout the year, and we look to continue to evolve the governance in this dynamic company as it grows.

By focusing on our core strengths and our unwavering commitment to maintaining and expanding our reputation of leadership and trust, we have further positioned our company at the forefront of the health and wellness industry. We enter 2019 in a position of strength with a globally recognized brand and reputation for quality and innovation.

The Board of Directors, along with our management team and dedicated associates, are each and all dedicated to driving Jamieson's long-term growth and shareholder value. On behalf of all of us at Jamieson Wellness, we thank you for your continued support of our brands and products, and for your shared investment in our company.

**DAVID WILLIAMS**  
Chairman of the Board

# OUTPACING OUR GOALS

It takes endurance to consistently claim the title of Canada's #1 consumer health brand. But we've managed it.

In 2018, we continued to not only outperform our peers, but ourselves. Year after year, we see our efforts pay off as our numbers climb.

+6% Increased Revenue  
**\$319.8 million\***

+10% Increased Adjusted EBITDA  
**\$67.6 million**

+22% Increased Adjusted Net Income  
**\$33.7 million**

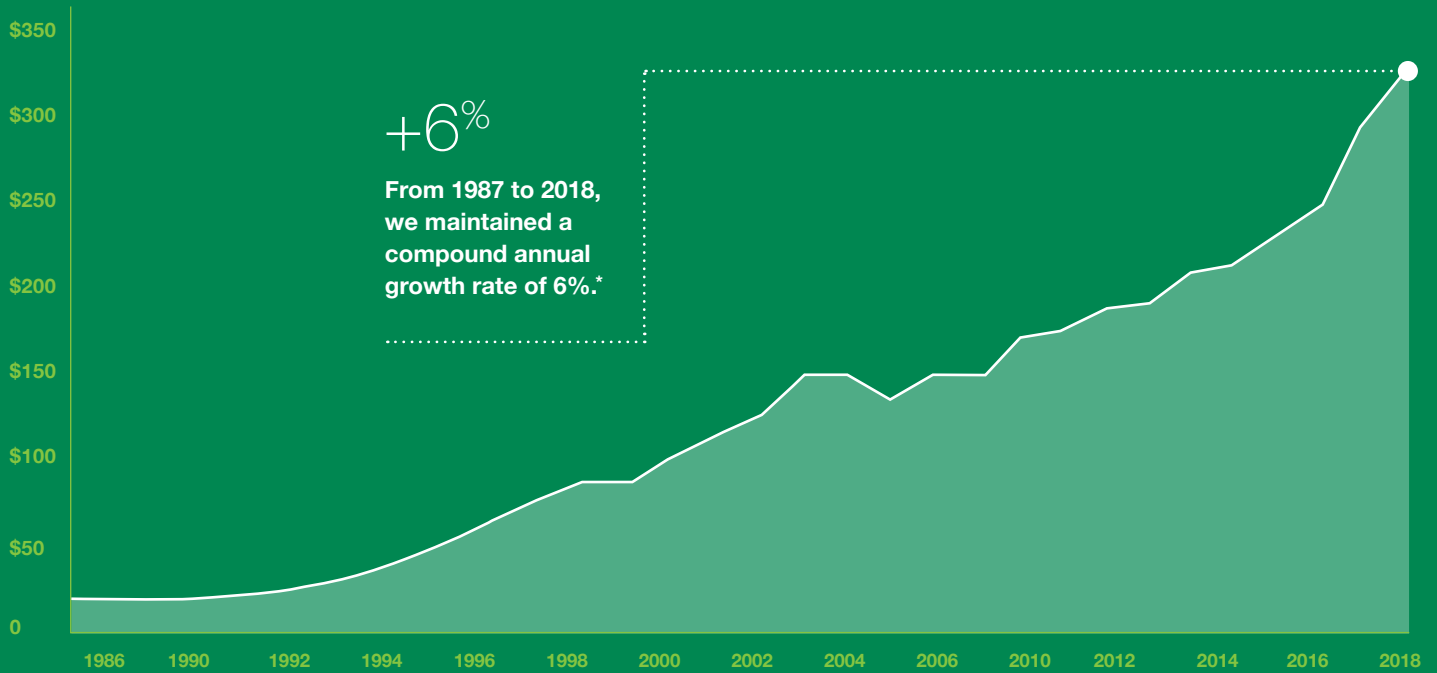
\$0.85 Adjusted Earnings per Diluted Share

\*The \$319.8 million, representing a 6% year over year increase, excludes \$13.3M in revenue adjusted for IFRS 15. Refer to note 2 of the 2018 consolidated financial statements for further details on this adjustment.

*This annual report contains "forward-looking information" within the meaning of applicable securities laws, which forward-looking information represents management's expectations as at the date hereof and is subject to change after such date. For a detailed discussion of forward-looking information, which applies in all respects to the forward-looking information contained herein, please refer to the section entitled "Forward-Looking Information" in Jamieson Wellness' annual information form dated March 28, 2019.*



## HISTORY OF CONSISTENT REVENUE GROWTH



\* 1987 to 2013 per historical financial statements (under Canadian Accounting Standards for Private Enterprises); 2014 to 2018 per audited IFRS statements and include impact of LVHS acquisition

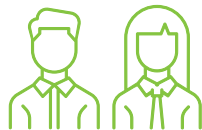


# CONDITIONED FOR THE LONG RUN

With nearly a century behind us, we are still speeding towards a more profitable future. Our successes continue to position us as a strong and enduring investment.



Built on a nearly 100-year heritage



Supported by an experienced, proven management team



Maintaining a strong track record of innovation across a broad range of categories



Growing substantially in VMS and Sports Nutrition through positive demographic trends



Exceeding regulatory standards through our scalable, well invested manufacturing platform



Positioned to capitalize on expanding international opportunities



Flourishing as a trusted, iconic brand









# THE STRONGER THE CORE, THE GRANDER THE POSSIBILITIES

From the very beginning, our vision has revolved around improving the world's health and wellness.

Through our persistence in 2018, we achieved significant results in three core areas of our business:

- 1 The Jamieson Brand
- 2 Product Innovation and Certifications
- 3 Global Expansion

# 1 OUR HEAVY HITTER

This year was marked by the notable advancement of our heritage Jamieson brand. We are incredibly proud that Canada's oldest vitamin, mineral and supplement brand was the muscle behind our greatest feats in domestic and international growth.

This success is rooted in the strength of our reputation and the confidence of our consumers.







35 New branded products launched

+8.5% Branded domestic revenue

+30% Branded international revenue



## 2 THE HEART OF PROGRESS

As health needs evolve, so does our innovative approach to providing natural solutions. In 2018, we introduced 60+ products across our branded portfolio. This meant entering new categories, perfecting new formulas, and increasing consumer confidence with new, state-of-the-art ingredient verification technology.

The only thing that's not new about our innovation is its ability to transform the market. Over the year, Jamieson brand innovation delivered 8x more dollars per SKU than the competitive market average.





### TRU-ID® CERTIFICATION

To reinforce the purity and authenticity of our products, we became early adopters of a DNA certification program called TRU-ID®. It utilizes biotechnology to trace active ingredients in herbal supplements and probiotics back to their origins.

This year, we incorporated all of our Jamieson brand herbal products and our Progressive Probiotics line into this program. Our products are the first TRU-ID® certified products available in Food, Drug and Mass retailers.



### JAMIESON ESSENTIALS + PROTEIN

The Jamieson brand entered the protein category with Jamieson Essentials + Protein in early 2018. Within less than 12 months, our vanilla and chocolate flavoured SKUs became the best-selling new protein powders of the year in Food, Drug and Mass retailers.



### PROGRESSIVE PERFECT PROBIOTICS

Progressive Perfect Probiotics are a game changer for gut health. We launched this family of 7 products in 2018, each offering unique benefits for intestinal health. It's the world's first probiotic family with ingredient authenticity third-party certified by TRU ID®.

# 3

## NEW CENTRES OF ATTENTION

Though we were founded and built in Canada, Jamieson is now a multinational, multi-local corporation. In pursuit of becoming the world's most successful and trusted health and wellness company, we have extended our global footprint across more than 40 countries.

In 2018, our international segment continued to be our fastest-growing. We saw double-digit growth in many of our existing markets, including Bulgaria, Romania, Hong Kong, Korea and Slovakia.

Leveraging our brand equity, we also successfully established a presence in India, Macedonia and Croatia.



### **ADVANCEMENTS IN CHINA**

This country makes up the second largest vitamin market in the world. Throughout the year, we made numerous key advancements to solidify our place within it. And after 15 years in this market, our brand awareness among Chinese consumers is solid and continues to grow.

With several new product registrations under the new market regulations (and many more in progress), we are now free to launch these products into the Chinese domestic e-commerce and retail channels in 2019.

In support of this growing opportunity, we extended our distribution agreement with our existing Chinese partner for an additional five years. We have also established a wholly-owned foreign entity in China to better service global retail partners.

To further establish our local presence, we secured office and warehousing space in Shanghai, which is now operated by on-the-ground management.



**Jamieson™**  
NATURAL SOURCES  
Since 1922



保健食品

卫食健进字(2002)第0030号  
国家食品药品监督管理局批准

**健美生牌维生素C**  
Vitamin C Chewable



净含量: 85.8g (60 x 1430 mg)



**Jamieson™**  
NATURAL SOURCES  
Since 1922



保健食品

卫食健进字(2003)第0004号  
国家食品药品监督管理局批准

**健美生牌钙镁D片**  
Cal Magnesium with Vitamin D

净含量: 88.2g (60 x 1.47g)

NPN 80065141



## SUPPORT FROM WITHIN

Our Board of Directors is dedicated to the advancement of our organization and everyone touched by it – from our employees to our consumers, investors and stakeholders.



# **Management's Discussion and Analysis** of Financial Condition and Results of Operations

For the three and twelve months ended December 31, 2018

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## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS For the three and twelve months ended December 31, 2018

The following management's discussion and analysis of financial condition and results of operations ("MD&A") of Jamieson Wellness Inc. (together with its subsidiaries), referred to herein as "Jamieson", the "Company", "we", "us" or "our", is dated as of February 26, 2019. It should be read in conjunction with our audited consolidated annual financial statements and our accompanying notes for the year ended December 31, 2018.

Our audited consolidated annual financial statements and accompanying notes for the year ended December 31, 2018 have been prepared in accordance with International Financial Reporting Standards ("IFRS"). These audited consolidated annual financial statements include the accounts of our Company and other entities that we control and are reported in Canadian dollars.

All references in this MD&A to "Q4 2018" are to our fiscal quarter ended December 31, 2018 and to "Q4 2017" are to our fiscal quarter ended December 31, 2017. All references in this MD&A to "YTD 2018" are to our year ended December 31, 2018 and to "YTD 2017" are to our year ended December 31, 2017.

See "*Forward-Looking Information*" and "*Risk Factors*" for a discussion of the uncertainties, risks and assumptions associated with these statements. Actual results may differ materially from those indicated or underlying forward-looking information as a result of various factors, including those referred to under the heading "*Risk Factors*" and elsewhere in this MD&A.

### Non-IFRS Financial Measures

This MD&A makes reference to certain non-IFRS measures. Management uses these non-IFRS financial measures for purposes of comparison to prior periods and development of future projections and earnings growth prospects. This information is also used by management to measure the profitability of ongoing operations and in analyzing our business performance and trends. These measures are not recognized measures under IFRS, do not have a standardized meaning prescribed by IFRS and are therefore unlikely to be comparable to similar measures presented by other companies. Rather, these measures are provided as additional information to complement those IFRS measures by providing further understanding of our results of operations from management's perspective. Accordingly, they should not be considered in isolation nor as a substitute for analysis of our financial information reported under IFRS. We use non-IFRS measures including "gross profit", "gross profit margin", "operating margin" "EBITDA", "Adjusted EBITDA", "Adjusted EBITDA margin", "Adjusted Net Income" and "Adjusted Diluted Earnings per Share", to provide supplemental measures of our operating performance and thus highlight trends in our core business that may not otherwise be apparent when relying solely on IFRS financial measures. Management also uses non-IFRS measures in order to prepare annual operating budgets and to determine components of management compensation.

### Forward-Looking Information

Certain statements contained in this MD&A including, in particular, in the sections below entitled "*Summary of Factors Affecting our Performance*", "*Liquidity and Capital Resources*", "*Outlook*" and "*Risk Factors*", contain forward-looking information within the meaning of applicable securities laws. Forward-looking information may relate to our future outlook and anticipated events or results and may include information regarding our financial position, business strategy, growth strategy, budgets, operations, financial results, taxes, dividend policy, plans and objectives of our Company. Particularly, information regarding our expectations of future results, performance, achievements, prospects or opportunities is forward-looking information. In some cases, forward-looking information can be identified by the use of forward-looking terminology such as "plans", "targets", "expects", "does not expect", "is expected", "an opportunity exists", "budget", "scheduled", "estimates", "outlook", "forecasts", "projection", "prospects", "strategy", "intends", "anticipates", "does not anticipate", "believes", or variations of such words and phrases or state that certain actions, events or results "may", "could", "would", "might", "will", "will be taken", "occur" or "be achieved". In addition, any statements that refer to expectations, intentions, projections or other characterizations of future events or circumstances contain forward-looking information. Statements containing forward-looking information are not historical facts but instead represent management's expectations, estimates and projections regarding future events or circumstances.

In addition, our assessments of, and targets for, annual revenue, Adjusted EBITDA, Adjusted Diluted Earnings per Share and certain other measures are considered forward-looking information. See "*Outlook*" for additional information concerning our strategies, assumptions and market outlook in relation to these assessments.

The forward-looking information contained in this MD&A is based on management's opinions, estimates and assumptions in light of its experience and perception of historical trends, current conditions and expected future developments, as well as other factors we believe to be appropriate and reasonable in the circumstances. Despite a careful process to prepare and review the forward-looking information, there can be no assurance that the underlying opinions, estimates and assumptions will prove to be correct. Certain assumptions in respect of the ability to pursue further strategic acquisitions; our ability to source raw materials and other



inputs from our suppliers; our ability to continue to innovate product offerings that resonate with our target customer base; our ability to retain key management and personnel; our ability to continue to expand our international presence and grow our brand internationally; our ability to obtain and maintain existing financing on acceptable terms; currency exchange and interest rates; the impact of competition; changes to trends in our industry or global economic factors; and changes to laws, rules, regulations and global standards are material factors made in preparing the forward-looking information and management's expectations contained in this MD&A.

The forward-looking information contained in this MD&A represents management's expectations as of the date of this MD&A and is subject to change after such date. However, we disclaim any intention or obligation or undertaking to update or revise any forward-looking information whether as a result of new information, future events or otherwise, except (i) as required under applicable securities laws in Canada and (ii) to provide updates in our annual MD&A for each financial year up to and including that in respect of 2021 on our growth targets disclosed in our final prospectus (the "IPO Prospectus") dated June 29, 2017 in respect of our initial public offering (the "Initial Offering"), including to provide information on our growth targets disclosed in such prospectus, actual results and a discussion of variances from our growth targets. The forward-looking information contained in this MD&A is expressly qualified by this cautionary statement.

Forward-looking information is necessarily based on a number of opinions, estimates and assumptions that management considered appropriate and reasonable as of the date such statements are made, is subject to known and unknown risks, uncertainties, assumptions and other factors that may cause the actual results, level of activity, performance or achievements to be materially different from those expressed or implied by such forward-looking information, including but not limited to those described below and referred to under the heading "Risk Factors" and under the heading "Risk Factors" in our most recent annual information form.

We caution that the list of risk factors and uncertainties is not exhaustive and other factors could also adversely affect our results. Readers are urged to consider the risks, uncertainties and assumptions carefully in evaluating the forward-looking information and are cautioned not to place undue reliance on such information.

### Overview

Founded in 1922, Jamieson is Canada's leading branded manufacturer, distributor and marketer of high quality natural health products. We offer consumers a comprehensive and innovative line of branded vitamins, minerals and supplements ("VMS") products and certain over-the-counter remedies through our Jamieson and Lorna Vanderhaeghe Health Solutions Inc. ("LVHS") brands as well as sports nutrition products through our Progressive, Precision and Iron Vegan brands (Body Plus Nutritional Products Inc. ("Body Plus")), all of which we refer to as our "Jamieson Brands" segment. Revenues generated from our previous acquisitions of Body Plus and LVHS, previously described as "Health Food" sales, are known as "Specialty Brands" given the availability of these brands across food, drug and health food channels. In addition to our Jamieson Brands segment, we also offer comprehensive manufacturing and product development services on a contract manufacturing basis to select blue-chip consumer health companies and retailers worldwide, which we refer to as our "Strategic Partners" segment.

VMS and sports nutrition are two large and growing segments of the consumer health industry. Jamieson is Canada's #1 overall consumer health brand by sales and Canada's #1 brand in VMS by sales. Our trusted reputation and success in Canada have allowed us to significantly grow the business internationally, with products being sold in 40 countries worldwide.

Our trusted reputation, strong industry relationships and certifications and commitment to meeting the highest standards of manufacturing together with high quality production capabilities, attract opportunities for us to manufacture products for select blue-chip consumer health companies and retailers worldwide. Combining deep consumer insights with extensive research and development capabilities, we deliver category-leading innovation and growth.

Our leading market position and brands, focus on quality and innovation and extensive selection of products make us the preferred partner for retailers in Canada.

### Initial Public Offering

On July 7, 2017, we successfully completed the Initial Offering. Our common shares ("Common Shares") are listed for trading on the Toronto Stock Exchange under the stock symbol "JWEL".

Prior to the closing of the Initial Offering, we executed the following transactions (collectively, the "Reorganization"): (i) declared accrued and unpaid dividends on the then outstanding class A to V and class W preferred shares in an aggregate amount of \$9.6 million, which dividends (net of Part XIII tax withholdings (the "Dividend Tax Withholding")) were satisfied through the issuance of promissory notes (the "Dividend Notes"); (ii) returned capital on the then outstanding class A to V preferred shares in the aggregate amount of \$65.1 million, which return of capital was satisfied through the issuance of promissory notes (the "ROC Notes"); (iii) redeemed all of the then outstanding class W preferred shares in exchange for a note payable of \$94.6 million

("Class W Promissory Note"); and (iv) agreed to remit the Dividend Tax Withholding and tax payable on behalf of Jamieson Finco LP ("Finco") in the aggregate amount of \$5.8 million ("Finco Tax Payable").

Following the transactions described immediately above and also forming part of the Reorganization: (i) each of the holders of the then outstanding class A – V preferred shares converted their shares on a 1:1 basis into Common Shares of the Company; and (ii) the Company filed articles of amendment to split each Common Share into 20.81010939 Common Shares, add a new class of preference shares ("Preference Shares") and eliminate the class A common shares and class A – W preferred shares. In addition, the Company amended and restated its legacy option plan as of July 5, 2017 ("Legacy Option Plan") and entered into option exchange agreements.

The Initial Offering consisted of the offering to the public of 19,050,000 Common Shares consisting of a treasury issuance by the Company of 15,554,755 Common Shares and a secondary offering of 3,495,245 Common Shares by certain selling shareholders (the "Selling Shareholders"), including Jamieson Intermediate Holdings S.à r.l. ("CCMP"), an entity which was controlled by certain funds to which investment advisory services were provided by CCMP Capital Advisors, LP. The Initial Offering price of \$15.75 per Common Share resulted in net proceeds to the Company of \$232.1 million, and \$52.2 million to the Selling Shareholders after underwriting commissions of \$15.8 million. In addition, CCMP granted to the underwriters an over-allotment option (the "Over-Allotment Option") to purchase up to an additional 2,857,500 Common Shares from CCMP (or an affiliate) at an exercise price of \$15.75. The Over-Allotment Option was fully exercised after the Initial Offering and closed on July 14, 2017 and raised additional net proceeds of \$42.6 million for an affiliate of CCMP after underwriting commissions of \$2.4 million.

On July 7, 2017, the Company used a portion of the proceeds from the Initial Offering to: (i) make a loan to Jamieson Laboratories Ltd. ("JLL"), \$50.0 million of which was used by JLL on the same day to repay a portion of its Term Loan Facility (as defined herein) (refer to "*Liquidity and Capital Resources – Credit Facilities*"); and (ii) repay the Dividend Notes, the ROC Notes, the Class W Promissory Note, the Dividend Tax Withholding and the Finco Tax Payable, such that these obligations are no longer outstanding.

On July 7, 2017, the Company adopted a long-term incentive plan (the "LTIP"). In conjunction with the closing of the Initial Offering, options to purchase 679,944 Common Shares were granted under the LTIP to directors, officers and certain employees of the Company.

Also on July 7, 2017, after the closing of the Initial Offering, CCMP transferred all of its Common Shares of the Company then remaining to its affiliate, CCMP Capital Investors III Aggregator (AV-3) Ltd. ("CCMP Aggregator"). On August 3, 2017, CCMP Aggregator transferred all of its Common Shares of the Company then remaining to its shareholders, on a pro rata basis, including CCMP Capital Investors III (AV-3), L.P. ("CCMP AV-3") and CCMP Capital Investors III (AV-3) Employee, L.P. ("CCMP AV-3 Employee", and together with CCMP AV-3, the "CCMP Shareholders").

### Secondary Offering

On October 18, 2017, a secondary offering (the "Secondary Offering") by certain shareholders of the Company of Common Shares, including the CCMP Shareholders, was completed. Pursuant to the Secondary Offering, the CCMP Shareholders sold all of their Common Shares.

The Secondary Offering of 14,778,751 Common Shares, including 1,758,751 Common Shares which were sold by the CCMP Shareholders to the underwriters upon the exercise in full of the over-allotment option, raised gross proceeds of \$273.4 million for the selling shareholders, at a price of \$18.50 per Common Share. The Company did not receive any proceeds from the Secondary Offering. Underwriting fees were paid by the selling shareholders, and other expenses related to the Secondary Offering of approximately \$0.7 million were incurred and paid by the Company.

The closing of the Secondary Offering constituted a change of control event, and as a result, the remaining service-based options granted under the Legacy Option Plan vested (amounting to an aggregate of 852,314 options to purchase Common Shares), resulting in an acceleration of expense of \$1.0 million.

### Summary of Factors Affecting Our Performance

We believe our performance and future success depend on a number of factors that present significant opportunities for us. These factors are also subject to a number of inherent risks and challenges, some of which are discussed below and referred to under "*Risk Factors*".

### Our Brands

Our iconic brands have been built around consumer trust through focus on product quality, purity and potency. Our well-established brands include Jamieson, LVHS, Progressive, Precision and Iron Vegan. Maintaining, enhancing and growing our brand appeal in Canada and internationally is critical to our continued success. Failure to maintain and enhance our brands in any of the targeted markets may materially and adversely affect the business, results of operations or financial condition.

## **Product Innovation and Planning**

We believe that product innovation is integral to our success and we continue to focus on innovation as a key pillar of our growth. Our business is subject to changing consumer trends and preferences which is dependent, in part, on continued consumer interest in our new products, line extensions and reformulations. The success of new product offerings, enhancements, or reformulations depends upon a number of factors, including our ability to: (i) accurately anticipate customer needs; (ii) develop new products, line extensions or reformulations that meet these needs; (iii) successfully commercialize new products, line extensions and reformulations in a timely manner; (iv) price products competitively; (v) manufacture and deliver products in sufficient volumes and in a timely manner; (vi) differentiate product offerings from those of competitors; and (vii) maintain relationships with scientist employees and consultants and members of our panel of consumer health industry experts, which we call the Jamieson Scientific Advisory Board, in order to benefit from their expertise and innovations. We believe our pace of innovation and speed to market with the introduction of new products provide us with a competitive advantage within the space we compete.

## **Customer Relationships**

We have longstanding and deeply entrenched customer relationships with Canada's top retailers across the food, drug, mass, club, health food store, specialty and online retail channels. We sell products through our knowledgeable retail partners and we are dependent on retail partners across all channels to display and present our products to customers, in their brick and mortar stores and on their online e-commerce sites. Our partners service customers by stocking and displaying our products, and, in certain health food and other specialty stores, explaining product attributes and health benefits. Our relationships with these retail customers are important for consumer trust in the brand and the advertising and educational programs we continue to deploy. Failure to maintain these relationships with retail partners or financial difficulties experienced by these retail partners could adversely affect our business.

## **Sourcing and Production**

We have developed a strong, global supply chain based on long-standing relationships and have had relationships with the majority of our suppliers for over ten years. We purchase our ingredients from nearly 200 high quality raw material ingredient and packaging suppliers worldwide and potential suppliers are subject to a rigorous evaluation process by our quality assurance department. We are dependent on a stable and consistent supply of materials and inputs, including ingredients and packaging products. Although materials and inputs are generally available from multiple sources, certain materials and inputs are sourced from a restricted number of suppliers. In 2018, our top ten suppliers accounted for approximately 50% of our purchases. As is customary in the consumer health industry, we do not have long-term written contracts with most suppliers and often enter into one-year contracts for raw materials at fixed prices to provide additional time to address price increases and mitigate margin erosion.

## **Consumer Trends**

The Canadian consumer health industry is subject to shifts in consumer trends, preferences and consumer spending and our revenue and operating results depend, in part, on our ability to respond to such changes in a timely manner. As a result of our broad product scope and our strong innovation capabilities, we believe that we are well-positioned to respond to these shifts in consumer trends, preferences and consumer spending.

Our revenue is also impacted by consumer spending habits, including spending on our products, which are affected by many factors that are beyond our control, including, but not limited to, prevailing economic conditions, levels of employment, fuel prices, salaries and wages, the availability of consumer credit, and consumer perception of economic conditions.

## **Competition**

The market for VMS and sports nutrition products is highly competitive. Our direct competition consists of publicly and privately-owned companies, which tend to be highly fragmented in terms of both geographic market coverage and product categories. In many of our product categories, we compete not only with widely advertised branded products, but also with private label products. Given our significant scale and broad product scope relative to our competition, our iconic brand status, our strong innovation capabilities and our high-quality manufacturing, we believe that we are well-positioned to capitalize on favorable long-term trends in the VMS and sports nutrition segments. The specialized knowledge, expertise, and certifications required for production of VMS and sports nutrition products, is generally a significant barrier to entry for new competitors. Internationally, our competition varies by market and we have a strategic approach to entering international markets, which includes evaluating certain factors in each market, such as competitiveness, pricing dynamics, growth potential, regulatory environment and the propensity to be attracted to foreign brands.

## **Foreign Exchange**

We currently benefit from a natural currency hedge by purchasing certain materials and inputs in U.S. dollars and selling our products internationally in U.S. dollars. With respect to sales in Canada, we are exposed to fluctuating US-Canadian currency exchange rate where the products sold contain materials and inputs purchased with U.S. dollars. We manage net exposure to

fluctuating U.S.-Canadian currency exchange rate with foreign exchange hedging contracts. We do not have foreign exchange hedging contracts in place with respect to all currencies in which we currently do business but may, from time to time, enter into additional foreign exchange hedging contracts in respect of other foreign currencies.

Currency hedging entails a risk of illiquidity and, to the extent the applicable foreign currency depreciates or appreciates against the Canadian dollar, the use of hedges could result in losses greater than if the hedging had not been used. There can be no assurance that our hedging strategies, if any, will be effective in the future or that we will be able to enter into foreign exchange hedging contracts on satisfactory terms.

### **Business Acquisitions**

We leverage our relationships and network of industry participants and advisors to actively source and identify acquisition opportunities. We continue to pursue strategic acquisitions that enable us to further broaden and diversify product offerings and leverage current manufacturing and distribution facilities for new products. Any acquisitions may involve large transactions or realignment of existing investments, and present financial, managerial and operational challenges, which, if not successfully overcome, may reduce our profitability. We believe we have demonstrated our ability to successfully identify, integrate and grow businesses that we acquire. Since 2016, management has successfully made two acquisitions in line with our strategy.

### **Implementation of Growth Strategies**

We have a successful track record of growing revenues faster than the broader VMS segment and we believe we have a strong domestic and international growth strategy in place aimed at continuing to exceed broader industry growth rates. Our future success depends, in part, on management's ability to implement our growth strategy, including (i) product innovations within existing categories and growth into adjacent categories and continued growth of existing products in existing categories; (ii) further penetration into international markets and new geographies; (iii) growth in the Strategic Partners segment; and (iv) in support of our profitability targets, improvements in operating income, gross profit and operating expense margins. The ability to implement this growth strategy depends, among other things, on our ability to develop new products and product line extensions that appeal to consumers, maintain and expand brand loyalty and brand recognition, maintain and improve competitive position in the channels in which we compete and identify and successfully enter and market products in new geographic markets, market segments and categories.

### **Regulation**

In Canada and in the other jurisdictions in which we operate, we are subject to the laws and regulations applicable to any business engaged in formulation, production and distribution of consumer health products. This includes natural health product regulations, laws governing advertising, consumer protection regulations, environmental laws, laws governing the operation of warehouse facilities and labour and employment laws. We hold all required Health Canada site licenses, Canadian Food Inspection Agency certifications and import licenses for all of our manufacturing and distribution centres. Our products sold outside of Canada are subject to tariffs, treaties and various trade agreements as well as laws affecting the importation of consumer goods and we continuously monitor changes in these laws, regulations, treaties and agreements.

There is currently no uniform regulation applicable to natural health products worldwide and there has been an increasing movement in certain foreign markets to increase the regulation of natural health products. The adoption of new laws, regulations or other constraints or changes in the interpretations of such requirements may result in compliance costs or lead us to discontinue product sales and may have an adverse effect on the marketing of our products, resulting in loss of sales. We believe that Canadian regulations are amongst the most stringent worldwide and, as we currently operate in compliance with these high standards, increased regulation in foreign jurisdictions makes us uniquely positioned to grow sales in such jurisdictions.

### **How We Assess the Performance of our Business**

The key performance indicators below are used by management in evaluating the performance of our Company and assessing our business. We refer to certain key performance indicators used by management and typically used by our competitors in the Canadian consumer health industry, certain of which are not recognized under IFRS. See "*Non-IFRS Financial Measures*".

### **Revenue**

The majority of our revenue is derived from the sale of Jamieson branded products to distributors, retail and wholesale customers, as well as providing contract manufacturing services and the sale of product through our Strategic Partners segment.

Revenue is recognized for the sale of Jamieson branded products and the manufacturing of products to our strategic partners at the point in time when control of the asset is transferred to the customer, either at FOB shipping or FOB destination. We generally have a right to payment at the time of delivery (which is the same time that we have satisfied our performance obligations under the arrangement), as such a receivable is recognized as the consideration is unconditional and only the passage of time is required before payment is due.

A portion of our revenue is derived from contract manufacturing services provided to customers in our Strategic Partners segment under a tolling arrangement where the customer supplies us with a raw material or ingredient. Revenue is recognized net of the cost of the raw material or ingredient supplied by the customer.

Rights of return gives rise to variable consideration. The variable consideration is estimated at contract inception using the expected value method as this best predicts the amount of variable consideration to which we are entitled. The variable consideration is constrained to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur when any uncertainty is subsequently resolved. For products that are expected to be returned, a refund liability is recognized as a reduction of revenue at the time the control of the products purchased is transferred to the customers.

We may provide discounts and sales promotional incentives to our customers, which give rise to variable consideration. The variable consideration is constrained to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur when any uncertainty is subsequently resolved. The application of the constraint on variable consideration increases the amount of revenue that will be deferred. We apply the most likely amount method estimating discounts provided to customers using contracted rates and estimating sales promotional incentives provided to customers based on historical spending patterns. Jamieson may also provide other consideration to customers for customer-specific programs to promote the Company's products. Consequently, revenues are recognized net of these estimated program costs. All other estimated non-customer-specific promotional costs and consideration are expensed as selling, general and administrative expenses.

In subsequent periods, we monitor the performance of customers against agreed-upon obligations related to sales incentive programs and make any adjustments to both revenue and sales incentive accruals as required.

Previously under IAS 18, "Revenue" ("IAS 18"), we recognized revenue from product sales at the fair value of the consideration received or receivable, net of estimated returns and an estimate of sales incentives provided to customers excluding taxes or duty. Revenue was recognized when the customer took ownership of the product, title was transferred, all the risks and rewards of ownership were transferred to the customer, recovery of the consideration was probable, we had satisfied our performance obligations under the arrangement, and had no ongoing involvement with the sold product. Revenue was recognized to the extent that it was probable that the economic benefits would flow to us and the revenue could be reliably measured, regardless of when the payment was received. A portion of our revenues derived from contract manufacturing services provided to customers in the Strategic Partners Business was under a tolling arrangement where the customer supplied us with a raw material or ingredient. Revenue was recognized net of the cost of the raw material or ingredient supplied by the customer.

The value of sales incentives provided to customers was estimated using historical trends and was recognized at the time of sale as a reduction of revenue. Sales incentives included rebate and promotional programs provided to our customers. These rebates were based on achievement of specified volume or growth in volume levels and other agreed promotional activities. In subsequent periods, we monitored the performance of customers against agreed-upon obligations related to sales incentive programs and made any adjustments to both revenue and sales incentive accruals as required. A provision for returns and sales provisions was recognized at the time the product was sold and recognized as a reduction to revenue.

As part of our adoption of IFRS 15, "Revenue from Contracts with Customers" ("IFRS 15") (refer to "*Recently adopted accounting standards*"), other consideration to customers including payments for cooperative advertising, listing fees, customer loyalty programs, and other customer-specific programs totalling \$13.3 million was reclassified from cost of sales to reduction to revenue, with no impact to net income, for the year ended December 31, 2018. Other consideration to customers totalling \$3.6 million was reclassified for the quarter ended December 31, 2018.

As required for the audited consolidated annual financial statements, we have disaggregated revenue recognized from contracts with customers. Please refer to Note 23 in our audited consolidated annual financial statements for the disclosure on disaggregated revenue.

### **Gross Profit**

"Gross profit" is defined as revenue less cost of sales. Cost of sales includes product-related costs, labour, other operating costs such as rent, repair and maintenance, and amortization. Our cost of sales may include different costs compared to other manufacturers and distributors in the Canadian consumer health industry. Management believes that gross profit is a useful measure in assessing the Company's underlying operating performance before sales, general, and administrative ("SG&A") expenses and share-based compensation.

### **Gross Profit Margin**

"Gross profit margin" is defined as gross profit divided by revenue.

## **SG&A**

Our SG&A expenses are predominantly comprised of wages, benefits, travel, marketing, accounting fees, legal fees, non-customer-specific promotional costs and other expenses related to the corporate infrastructure required to support our business. Our SG&A expenses also include regulatory, legal, accounting, insurance and other expenses associated with being a public company.

## **Earnings from Operations**

"Earnings from operations" is defined as gross profit less SG&A expenses and share-based compensation.

## **Operating Margin**

"Operating margin" is defined as earnings from operations divided by revenue.

## **EBITDA**

"EBITDA" is defined as net income (loss) before: (i) provision for (recovery of) income taxes; (ii) interest (income) expense and other financing costs; (iii) preferred share accretion; (iv) depreciation of property, plant, and equipment; and (v) amortization of intangible assets.

## **Adjusted EBITDA**

"Adjusted EBITDA" is defined as EBITDA before: (i) share-based compensation; (ii) amortization of fair value adjustments; (iii) foreign exchange (gain) loss; (iv) termination benefits and related costs; (v) acquisition costs; (vi) purchase consideration accounted for as compensation expense; (vii) public offering costs; (viii) international market expansion; (ix) non-recurring business integration; and (x) other non-operating, non-recurring and non-cash costs. We believe Adjusted EBITDA is a useful measure to assess the performance and cash flow of our Company as it provides more meaningful operating results by excluding the effects of interest, taxes, depreciation and amortization costs, expenses we believe are not reflective of our underlying business performance and other one-time, non-recurring or non-cash expenses.

## **Adjusted EBITDA Margin**

"Adjusted EBITDA margin" is defined as Adjusted EBITDA divided by revenue.

## **Adjusted Net Income**

"Adjusted Net Income" is defined as consolidated net income (loss) adjusted for the impact of: (i) share-based compensation; (ii) amortization of fair value adjustments; (iii) amortization of deferred financing fee; (iv) foreign exchange (gain) loss; (v) termination benefits and related costs; (vi) acquisition costs; (vii) purchase consideration accounted for as compensation expense; (viii) public offering costs; (ix) net interest forgiveness; (x) preferred share accretion; (xi) international market expansion; (xii) non-recurring business integration; and (xiii) other non-operating and non-recurring costs net of related tax effects. We believe Adjusted Net Income is a useful measure to assess the performance of our Company as it provides more meaningful operating results by excluding the effects of expenses that are not reflective of our underlying business performance and other one-time or non-recurring expenses.

## **Adjusted Diluted Earnings per Share**

"Adjusted Diluted Earnings per Share" is defined as dividing Adjusted Net Income by the total number of outstanding diluted shares at the end of the most recently completed quarter for the relevant period. We believe Adjusted Diluted Earnings per Share is a useful measure to assess the performance of our Company.

## Selected Consolidated Financial Information

The following table provides selected historical financial information and other data of the Company which should be read in conjunction with our audited consolidated annual financial statements and related notes. A reconciliation of net income to EBITDA, Adjusted EBITDA, and Adjusted Net Income can be found in the below “Results of Operations” sections for the respective fiscal periods.

| (\$ in 000's, except as otherwise noted)                               | Three months ended<br>December 31 |               | For the year ended<br>December 31 |                 |
|--|-----------------------------------|---------------|-----------------------------------|-----------------|
|  | 2018                              | 2017          | 2018                              | 2017            |
| <b>Revenue</b>   | <b>99,145</b>                     | <b>84,318</b> | <b>319,776</b>                    | <b>300,619</b>  |
| Cost of sales  | 63,906                            | 53,421        | 204,358                           | 195,770         |
| Gross profit   | 35,239                            | 30,897        | 115,418                           | 104,849         |
| Selling, general and administrative expenses                           | 16,859                            | 14,252        | 62,261                            | 53,589          |
| Share-based compensation   | 1,278                             | 1,712         | 3,067                             | 6,325           |
| <b>Earnings from operations</b>  | <b>17,102</b>                     | <b>14,933</b> | <b>50,090</b>                     | <b>44,935</b>   |
| <b>Operating margin</b>  | <b>17.2%</b>                      | <b>17.7%</b>  | <b>15.7%</b>                      | <b>14.9%</b>    |
| Foreign exchange loss  | 89                                | 116           | 608                               | 331             |
| Termination benefits and related costs                                 | 129                               | 1,633         | 2,933                             | 4,132           |
| Public offering costs  | —                                 | 1,200         | —                                 | 10,720          |
| Acquisition costs  | —                                 | —             | —                                 | 2,444           |
| Other expenses   | 64                                | 2,981         | 298                               | 9,410           |
| Preferred share accretion  | —                                 | —             | —                                 | 28,796          |
| Interest expense and other financing costs                             | 2,390                             | 2,140         | 9,000                             | 4,733           |
| Income (loss) before income taxes                                      | 14,430                            | 6,863         | 37,251                            | (15,631)        |
| Provision for income taxes   | 4,384                             | 3,130         | 10,578                            | 8,156           |
| <b>Net income (loss)</b>   | <b>10,046</b>                     | <b>3,733</b>  | <b>26,673</b>                     | <b>(23,787)</b> |
| <b>Adjusted net income</b>   | <b>12,217</b>                     | <b>9,749</b>  | <b>33,733</b>                     | <b>27,582</b>   |
| <b>EBITDA</b>  | <b>19,220</b>                     | <b>11,194</b> | <b>55,297</b>                     | <b>26,400</b>   |
| <b>Adjusted EBITDA</b>   | <b>22,933</b>                     | <b>18,848</b> | <b>67,628</b>                     | <b>61,477</b>   |
| <b>Adjusted EBITDA margin</b>  | <b>23.1%</b>                      | <b>22.4%</b>  | <b>21.1%</b>                      | <b>20.5%</b>    |
| <b>Net income (loss)</b>   | <b>10,046</b>                     | <b>3,733</b>  | <b>26,673</b>                     | <b>(23,787)</b> |
| Preferred share dividend   | —                                 | —             | —                                 | (9,605)         |
| <b>Basic, net income (loss) attributable to common shareholders:</b>   | <b>10,046</b>                     | <b>3,733</b>  | <b>26,673</b>                     | <b>(33,392)</b> |
| Preferred share accretion  | —                                 | —             | —                                 | —               |
| <b>Diluted, net income (loss) attributable to common shareholders:</b> | <b>10,046</b>                     | <b>3,733</b>  | <b>26,673</b>                     | <b>(33,392)</b> |
| <b>Weighted average number of shares</b>                               |                                   |               |                                   |                 |
| Basic  | 38,166,594                        | 37,729,359    | 38,009,443                        | 18,669,758      |
| Diluted  | 39,707,979                        | 39,639,122    | 39,531,078                        | 18,669,758      |
| Adjusted Diluted   | 39,707,979                        | 39,639,122    | 39,707,979                        | 39,639,122      |
| <b>Earnings per share attributable to common shareholders:</b>         |                                   |               |                                   |                 |
| Basic, earnings (loss) per share                                       | 0.26                              | 0.10          | 0.70                              | (1.79)          |
| Diluted, earnings (loss) per share                                     | 0.25                              | 0.09          | 0.67                              | (1.79)          |
| Adjusted Diluted, earnings per share                                   | 0.31                              | 0.25          | 0.85                              | 0.70            |

The following table provides selected consolidated financial position data for the periods indicated.

| (\$ in 000's)   | As at<br>December 31, 2018 | As at<br>December 31, 2017 |
|---|----------------------------|----------------------------|
| <b>Selected Consolidated Financial Position Data:</b> |                            |                            |
| Total assets  | 549,021                    | 512,555                    |
| Total non-current liabilities                         | 205,739                    | 210,012                    |

#### Results of Operations – three months ended December 31, 2018 and 2017

The following table provides a summary of our results for the three months ended December 31, 2018 and December 31, 2017.

| (\$ in 000's, except as otherwise noted)  | Three months ended<br>December 31 |               |               |               |
|---|-----------------------------------|---------------|---------------|---------------|
|   | 2018                              | 2017          | \$ Change     | % Change      |
| <b>Revenue (\$102,784 less other consideration payable to customers of \$3,639)</b> | <b>99,145</b>                     | <b>84,318</b> | <b>14,827</b> | <b>17.6%</b>  |
| Cost of sales   | 63,906                            | 53,421        | 10,485        | 19.6%         |
| Gross profit  | 35,239                            | 30,897        | 4,342         | 14.1%         |
| Selling, general and administrative expenses  | 16,859                            | 14,252        | 2,607         | 18.3%         |
| Share-based compensation  | 1,278                             | 1,712         | (434)         | (25.4%)       |
| <b>Earnings from operations</b>   | <b>17,102</b>                     | <b>14,933</b> | <b>2,169</b>  | <b>14.5%</b>  |
| <b>Operating margin</b>   | <b>17.2%</b>                      | <b>17.7%</b>  | <b>—</b>      | <b>(0.5%)</b> |
| Foreign exchange loss   | 89                                | 116           | (27)          | (23.3%)       |
| Termination benefits and related costs  | 129                               | 1,633         | (1,504)       | (92.1%)       |
| Public offering costs   | —                                 | 1,200         | (1,200)       | (100.0%)      |
| Other expenses  | 64                                | 2,981         | (2,917)       | (97.9%)       |
| Interest expense and other financing costs  | 2,390                             | 2,140         | 250           | 11.7%         |
| Income before income taxes  | 14,430                            | 6,863         | 7,567         | 110.3%        |
| Provision for income taxes  | 4,384                             | 3,130         | 1,254         | 40.1%         |
| <b>Net income</b>   | <b>10,046</b>                     | <b>3,733</b>  | <b>6,313</b>  | <b>169.1%</b> |
| <b>Adjusted net income</b>  | <b>12,217</b>                     | <b>9,749</b>  | <b>2,468</b>  | <b>25.3%</b>  |
| <b>EBITDA</b>   | <b>19,220</b>                     | <b>11,194</b> | <b>8,026</b>  | <b>71.7%</b>  |
| <b>Adjusted EBITDA</b>  | <b>22,933</b>                     | <b>18,848</b> | <b>4,085</b>  | <b>21.7%</b>  |
| <b>Adjusted EBITDA margin</b>   | <b>23.1%</b>                      | <b>22.4%</b>  | <b>—</b>      | <b>0.7%</b>   |



The following table provides a reconciliation of net income (loss) to EBITDA, Adjusted EBITDA, and Adjusted Net Income for the three months ended December 31, 2018 and December 31, 2017.

| (\$ in 000's, except as otherwise noted)  | Three months ended<br>December 31 |               | \$ Change    | % Change      |
|---|-----------------------------------|---------------|--------------|---------------|
|   | 2018                              | 2017          |              |               |
| <b>Net income</b>   | <b>10,046</b>                     | <b>3,733</b>  | <b>6,313</b> | <b>169.1%</b> |
| <i>Add:</i>   |                                   |               |              |               |
| Provision for income taxes  | 4,384                             | 3,130         | 1,254        | 40.1%         |
| Interest expense and other financing costs  | 2,390                             | 2,140         | 250          | 11.7%         |
| Depreciation of property, plant, and equipment                                      | 1,532                             | 1,336         | 196          | 14.7%         |
| Amortization of intangible assets   | 868                               | 855           | 13           | 1.5%          |
| <b>Earnings before interest, taxes,<br/>depreciation, and amortization (EBITDA)</b> | <b>19,220</b>                     | <b>11,194</b> | <b>8,026</b> | <b>71.7%</b>  |
| Share-based compensation <sup>(1)</sup>   | 1,278                             | 1,712         | (434)        | (25.4%)       |
| Foreign exchange loss   | 89                                | 116           | (27)         | (23.3%)       |
| Termination benefits and related costs <sup>(2)</sup>                               | 129                               | 1,633         | (1,504)      | (92.1%)       |
| Purchase consideration accounted for as<br>compensation expense <sup>(3)</sup>      | —                                 | 2,521         | (2,521)      | (100.0%)      |
| Public offering costs   | —                                 | 1,200         | (1,200)      | (100.0%)      |
| International market expansion <sup>(4)</sup>                                       | 669                               | —             | 669          | 100.0%        |
| Non-recurring business integration <sup>(5)</sup>                                   | 844                               | —             | 844          | 100.0%        |
| Other <sup>(6)</sup>  | 704                               | 472           | 232          | 49.2%         |
| <b>Adjusted EBITDA</b>  | <b>22,933</b>                     | <b>18,848</b> | <b>4,085</b> | <b>21.7%</b>  |
| Provision for income taxes  | (4,384)                           | (3,130)       | (1,254)      | (40.1%)       |
| Interest expense and other financing costs  | (2,390)                           | (2,140)       | (250)        | (11.7%)       |
| Depreciation of property, plant, and<br>equipment                                   | (1,532)                           | (1,336)       | (196)        | (14.7%)       |
| Amortization of intangible assets   | (868)                             | (855)         | (13)         | (1.5%)        |
| Share-based compensation <sup>(7)</sup>   | (895)                             | (734)         | (161)        | (21.9%)       |
| Tax effect of normalization adjustments   | (647)                             | (904)         | 257          | 28.4%         |
| <b>Adjusted net income</b>  | <b>12,217</b>                     | <b>9,749</b>  | <b>2,468</b> | <b>25.3%</b>  |

- (1) In Q4 2018, the Company's share-based compensation expense pertains to the LTIP (refer to "Share-based compensation"). In Q4 2017, a \$1.0 million expense was incurred pertaining to the accelerated vesting of certain options under the Legacy Option Plan in connection with the Secondary Offering.
- (2) As management continually assesses and enhances current processes, reorganization activities are undertaken intermittently in order to gain flexibility and improve efficiency. The costs related to both years are mainly comprised of severance costs and salary continuance.
- (3) In conjunction with the acquisition of Body Plus and Sonoma on January 31, 2017, deferred consideration payable has been accounted for as compensation expense under the provisions of IFRS 3, Business Combinations. A portion of the deferred consideration of \$9.4 million was due to be paid on the one-year anniversary of the acquisition with the remaining balance paid in July 2018.
- (4) We incurred one-time expenses pertaining to professional fees in establishing our presence in China including regulatory and logistical processes, distribution and supply agreements, along with costs incurred on a China market study.
- (5) We incurred non-employee related expenses associated with the integration of our LVHS and Body Plus businesses including the consolidation of offices, warehouses, supply chain activities, consulting fees and transition counselling.
- (6) In 2018, costs were mainly related to one-time expenses pertaining to the initial set-up of our e-commerce platform, leasehold improvements and other expenses in relation to our head office expansion at the end of October 2018, consulting fees for one-time projects and costs associated with the review and assessment of acquisition opportunities. In 2017, we made investments in process improvement projects and other one-time studies commissioned to integrate the acquired Sonoma operations.
- (7) In 2018, we normalize for performance-based share units ("PSUs") granted to certain employees on May 31, 2018 and time-based restricted share units ("RSUs") granted to certain employees on November 6, 2018 (refer to "Share-based compensation"). In 2017, we normalize for the accelerated vesting of certain options under the Legacy Option Plan as a result of the Secondary Offering.

The following table provides selected financial information for our two operating segments for the three months ended December 31, 2018 and December 31, 2017.

*Jamieson Brands*

| (\$ in 000's, except as otherwise noted)     | For the three months ended<br>December 31, |        |           |          |
|--|--|--------|-----------|----------|
|  | 2018                                       | 2017   | \$ Change | % Change |
| Revenue                                      | 69,715                                     | 65,545 | 4,170     | 6.4%     |
| Gross profit                                 | 31,079                                     | 27,107 | 3,972     | 14.7%    |
| Gross profit margin                          | 44.6%                                      | 41.4%  | —         | 3.2%     |
| Selling, general and administrative expenses | 15,324                                     | 12,663 | 2,661     | 21.0%    |
| Share-based compensation                     | 1,278                                      | 1,712  | (434)     | (25.4%)  |
| Earnings from operations                     | 14,477                                     | 12,732 | 1,745     | 13.7%    |
| Operating margin                             | 20.8%                                      | 19.4%  | —         | 1.4%     |
| Adjusted EBITDA                              | 19,742                                     | 16,308 | 3,434     | 21.1%    |
| Adjusted EBITDA margin                       | 28.3%                                      | 24.9%  | —         | 3.4%     |

The following table provides a reconciliation from earnings from operations to Adjusted EBITDA for the three months ended December 31, 2018 and December 31, 2017.

| (\$ in 000's, except as otherwise noted)       | For the three months ended<br>December 31, |               |              |              |
|--|--|---------------|--------------|--------------|
|  | 2018                                       | 2017          | \$ Change    | % Change     |
| Earnings from operations                       | 14,477                                     | 12,732        | 1,745        | 13.7%        |
| Depreciation of property, plant, and equipment | 1,088                                      | 997           | 91           | 9.1%         |
| Amortization of intangible assets              | 862  | 855           | 7            | 0.8%         |
| Share-based compensation                       | 1,278                                      | 1,712         | (434)        | (25.4%)      |
| International market expansion                 | 669  | —             | 669          | 100.0%       |
| Non-recurring business integration             | 734  | —             | 734          | 100.0%       |
| Other  | 634  | 12            | 622          | 5183.3%      |
| Adjusted EBITDA                                | <b>19,742</b>                              | <b>16,308</b> | <b>3,434</b> | <b>21.1%</b> |

*Strategic Partners*

| (\$ in 000's, except as otherwise noted)     | For the three months ended<br>December 31, |        |           |          |
|--|--|--------|-----------|----------|
|  | 2018                                       | 2017   | \$ Change | % Change |
| Revenue                                      | 29,430                                     | 18,773 | 10,657    | 56.8%    |
| Gross profit                                 | 4,160                                      | 3,790  | 370       | 9.8%     |
| Gross profit margin                          | 14.1%                                      | 20.2%  | —         | (6.1%)   |
| Selling, general and administrative expenses | 1,535                                      | 1,589  | (54)      | (3.4%)   |
| Earnings from operations                     | 2,625                                      | 2,201  | 424       | 19.3%    |
| Operating margin                             | 8.9%                                       | 11.7%  | —         | (2.8%)   |
| Adjusted EBITDA                              | 3,191                                      | 2,540  | 651       | 25.6%    |
| Adjusted EBITDA margin                       | 10.8%                                      | 13.5%  | —         | (2.7%)   |

The following table provides a reconciliation from earnings from operations to Adjusted EBITDA for the three months ended December 31, 2018 and December 31, 2017.

| (\$ in 000's, except as otherwise noted)       | For the three months ended<br>December 31, |              |            |              |
|--|--|--------------|------------|--------------|
|  | 2018                                       | 2017         | \$ Change  | % Change     |
| Earnings from operations                       | 2,625                                      | 2,201        | 424        | 19.3%        |
| Depreciation of property, plant, and equipment | 444  | 339          | 105        | 31.0%        |
| Amortization of intangible assets              | 6  | —            | 6          | 100.0%       |
| Non-recurring business integration             | 110  | —            | 110        | 100.0%       |
| Other  | 6  | —            | 6          | 100.0%       |
| Adjusted EBITDA                                | <b>3,191</b>                               | <b>2,540</b> | <b>651</b> | <b>25.6%</b> |

#### Revenue

Revenue increased 17.6%, or \$14.8 million, to \$99.1 million in Q4 2018. This was mainly driven by \$7.8 million or 11.9% growth offset by the impact of revenue recognition change of \$3.6 million in Jamieson Brands and an increase in Strategic Partners revenues of \$10.7 million or 56.8% quarter-over-quarter. Under historical guidance (refer to “*How We Assess the Performance of our Business – Revenue*”), revenue increased 21.9%, or \$18.5 million, to \$102.8 million in Q4 2018.

Revenue in the Jamieson Brands segment increased 6.4%, or \$4.2 million, to \$69.7 million in Q4 2018. This was impacted by the revenue recognition accounting impact of \$3.6 million, while Jamieson Brands growth was 11.9%, or \$7.8 million, driven by higher domestic Jamieson sales of \$7.3 million and international growth of \$1.9 million, partially offset by lower volumes on Specialty Brands (formerly referred to as “Health Foods” including Body Plus and LVHS) of \$1.4 million. Our domestic Jamieson sales increased by 15.9% driven by higher volume from continued strong consumer demand, our February price increase, innovations, and timing, as shipment growth has caught up in the back half of the year to more closely align with our year-over-year increase in consumer purchases. Our international sales increased by 26.4% versus prior quarter, led by growth in Asia, Europe and the Middle East. Specialty Brands volumes decreased by 11.1% and we have implemented improvement initiatives surrounding culture, customer and consumer. As the quarter progressed these initiatives began to take effect and revenue has improved on a month-over-month basis.

Revenue in the Strategic Partners segment increased 56.8%, or \$10.7 million, to \$29.4 million in Q4 2018. Revenue increase was mainly driven by new contracts and increased shipments due to strong demand for our customers’ branded products. Revenue was also impacted by the delayed receipt of customer supplied fish oil and vitamin A in the third quarter of 2018 which led to a shift in timing of delivery into Q4 2018.

#### Gross profit

Gross profit increased by \$4.3 million in Q4 2018 driven by revenue growth and a reclassification of trade related costs to SG&A in the current period. Gross profit margin decreased by 110 basis points to 35.5% in Q4 2018 and was impacted by a higher proportion of Strategic Partners revenue partially offset by the impact of lower reported revenues resulting from the revenue recognition change.

Gross profit in the Jamieson Brands segment increased by \$4.0 million in Q4 2018 driven by higher volumes, production efficiencies and a reclassification of trade related costs to SG&A in the current period. Gross profit margin increased by 320 basis points to 44.6% in Q4 2018 primarily due to operating efficiencies on incremental volumes and the impact of lower reported revenues resulting from the revenue recognition change.

Gross profit in the Strategic Partners segment increased by \$0.4 million to \$4.2 million in Q4 2018. The increase was primarily driven by higher volumes partially offset by an expected reduction of margin resulting from customer mix. Gross profit margin decreased by 610 basis points to 14.1% in Q4 2018 primarily due to customer mix discussed above.

#### Selling, general and administrative expenses

SG&A expenses increased by 18.3%, or \$2.6 million, to \$16.9 million in Q4 2018. In the Jamieson Brands segment, \$2.0 million in non-recurring costs related to business integration, international market expansion, e-commerce initiation, and other non-recurring costs, \$0.4 million impact of an accounting presentation reclassification in the current period, and higher variable compensation of \$0.5 million were partially offset by lower Specialty Brands selling commissions of \$0.2 million. In the Strategic Partners segment, SG&A expenses decreased by \$0.1 million due to lower variable compensation.

Share-based compensation

Share-based compensation decreased by \$0.4 million to \$1.3 million in Q4 2018 primarily due to the accelerated vesting of certain options granted to our directors, officers and employees under the Legacy Option Plan in the prior year, partially offset by additional grants of options under the LTIP in the current year.

Earnings from operations and operating margin

Earnings from operations increased by \$2.2 million in Q4 2018 mainly driven by increase in gross profit within the Jamieson Brands segment. Operating margin decreased slightly by 50 basis points to 17.2% due to the impact of non-recurring SG&A partially offset by lower reported revenues resulting from the revenue recognition change and the impact of share-based compensation related to the accelerated vesting in the prior year.

Earnings from operations in the Jamieson Brands segment increased by \$1.7 million mainly driven by higher gross profit. Operating margin increased 140 basis points to 20.8% in Q4 2018 due to gross profit margin improvements discussed above, lower reported revenues resulting from the revenue recognition change, and the impact of share-based compensation related to the accelerated vesting in the prior year, partially offset by the impact of non-recurring SG&A.

Earnings from operations in the Strategic Partners segment increased by \$0.4 million in Q4 2018 and operating margin decreased by 280 basis points to 8.9% in Q4 2018 as a result of the planned reduction in gross profit margin discussed above.

Foreign exchange loss

Foreign exchange loss of \$0.1 million is consistent with the same period in the prior year.

Termination benefits and related costs

Termination benefits and related costs decreased by \$1.5 million to \$0.1 million in Q4 2018. In 2017, costs were primarily restructuring costs incurred in connection with our Initial Offering. The costs for both years are mainly comprised of severance costs and salary continuance.

Public offering costs

Public offering costs of \$1.2 million in Q4 2017 was related to our Initial Offering (refer to "*Initial Public Offering*") and our Secondary Offering (refer to "*Secondary Offering*").

Other expenses

Other expenses decreased by \$2.9 million to \$0.1 million in Q4 2018. In Q4 2017, other expenses were mainly related to deferred consideration in relation to the acquisition of Body Plus and Sonoma for \$2.5 million, other non-recurring consulting services of \$0.4 million, and other advisory fees of \$0.1 million.

Interest expense and other financing costs

Interest expense and other financing costs increased by \$0.3 million to \$2.4 million in Q4 2018 based on higher levels of borrowing and slightly higher rates in the current quarter.

Provision for income taxes

Provision for income taxes increased by \$1.3 million to \$4.4 million in Q4 2018. Our Q4 2018 effective tax rate of 30.4% was impacted by non-deductible share-based compensation. Our Q4 2017 effective tax rate of 45.6% was significantly impacted by accelerated share-based compensation and purchase consideration accounted for as compensation expense.

Depreciation

Depreciation expense increased by \$0.2 million to \$1.5 million in Q4 2018 due to increases in our capital investments.

Amortization

Amortization expense remained relatively consistent with the same period in the prior year. A minor increase was due to our investment in international product registrations and website development costs.

EBITDA and Adjusted EBITDA

EBITDA increased by \$8.0 million to \$19.2 million in Q4 2018 primarily due to the factors discussed above.

Adjusted EBITDA increased by \$4.1 million to \$22.9 million and Adjusted EBITDA margin increased by 70 basis points to 23.1% for the quarter mainly due to gross profit margin improvements in the Jamieson Brands segment and the impact of lower reported revenues resulting from the revenue recognition change, partially offset by the volume of Strategic Partners activity in the quarter.

Adjusted EBITDA in the Jamieson Brands segment increased by \$3.4 million to \$19.7 million and Adjusted EBITDA margin increased by 340 basis points to 28.3% for the quarter. This was mainly driven by gross profit margin improvements discussed above and the impact of lower reported revenues resulting from the revenue recognition change.

Adjusted EBITDA in the Strategic Partners segment increased by \$0.7 million, to \$3.2 million and Adjusted EBITDA margin decreased to 10.8% in Q4 2018 mainly due to lower gross profit margins discussed above.

## Results of Operations – for the year ended December 31, 2018 and 2017

The following table provides a summary of our results for the year ended December 31, 2018 and December 31, 2017.

| (\$ in 000's, except as otherwise noted)   | For the year ended<br>December 31 |                 |               |               |
|--|-----------------------------------|-----------------|---------------|---------------|
|  | 2018                              | 2017            | \$ Change     | % Change      |
| <b>Revenue (\$333,076 less other consideration payable to customers of \$13,300)</b> | <b>319,776</b>                    | <b>300,619</b>  | <b>19,157</b> | <b>6.4%</b>   |
| Cost of sales  | 204,358                           | 195,770         | 8,588         | 4.4%          |
| Gross profit   | 115,418                           | 104,849         | 10,569        | 10.1%         |
| Selling, general and administrative expenses   | 62,261                            | 53,589          | 8,672         | 16.2%         |
| Share-based compensation   | 3,067                             | 6,325           | (3,258)       | (51.5%)       |
| <b>Earnings from operations</b>  | <b>50,090</b>                     | <b>44,935</b>   | <b>5,155</b>  | <b>11.5%</b>  |
| <b>Operating margin</b>  | <b>15.7%</b>                      | <b>14.9%</b>    | <b>—</b>      | <b>0.8%</b>   |
| Foreign exchange loss  | 608                               | 331             | 277           | 83.7%         |
| Termination benefits and related costs   | 2,933                             | 4,132           | (1,199)       | (29.0%)       |
| Public offering costs  | —                                 | 10,720          | (10,720)      | (100.0%)      |
| Acquisition costs  | —                                 | 2,444           | (2,444)       | (100.0%)      |
| Other expenses   | 298                               | 9,410           | (9,112)       | (96.8%)       |
| Preferred share accretion  | —                                 | 28,796          | (28,796)      | (100.0%)      |
| Interest expense and other financing costs   | 9,000                             | 4,733           | 4,267         | 90.2%         |
| Income (loss) before income taxes  | 37,251                            | (15,631)        | 52,882        | 338.3%        |
| Provision for income taxes   | 10,578                            | 8,156           | 2,422         | 29.7%         |
| <b>Net income (loss)</b>   | <b>26,673</b>                     | <b>(23,787)</b> | <b>50,460</b> | <b>212.1%</b> |
| <b>Adjusted net income</b>   | <b>33,733</b>                     | <b>27,582</b>   | <b>6,151</b>  | <b>22.3%</b>  |
| <b>EBITDA</b>  | <b>55,297</b>                     | <b>26,400</b>   | <b>28,897</b> | <b>109.5%</b> |
| <b>Adjusted EBITDA</b>   | <b>67,628</b>                     | <b>61,477</b>   | <b>6,151</b>  | <b>10.0%</b>  |
| <b>Adjusted EBITDA margin</b>  | <b>21.1%</b>                      | <b>20.5%</b>    | <b>—</b>      | <b>0.6%</b>   |

The following table provides a reconciliation of net income (loss) to EBITDA, Adjusted EBITDA, and Adjusted Net Income for the year ended December 31, 2018 and December 31, 2017.

| (\$ in 000's, except as otherwise noted)  | For the year ended<br>December 31 |                 |               |               |
|---|-----------------------------------|-----------------|---------------|---------------|
|   | 2018                              | 2017            | \$ Change     | % Change      |
| <b>Net income (loss)</b>  | <b>26,673</b>                     | <b>(23,787)</b> | <b>50,460</b> | <b>212.1%</b> |
| <i>Add:</i>   |                                   |                 |               |               |
| Provision for income taxes  | 10,578                            | 8,156           | 2,422         | 29.7%         |
| Interest expense and other financing costs  | 9,000                             | 4,733           | 4,267         | 90.2%         |
| Preferred share accretion   | —                                 | 28,796          | (28,796)      | (100.0%)      |
| Depreciation of property, plant, and equipment                                      | 5,551                             | 5,106           | 445           | 8.7%          |
| Amortization of intangible assets   | 3,495                             | 3,396           | 99            | 2.9%          |
| <b>Earnings before interest, taxes,<br/>depreciation, and amortization (EBITDA)</b> | <b>55,297</b>                     | <b>26,400</b>   | <b>28,897</b> | <b>109.5%</b> |
| Share-based compensation <sup>(1)</sup>   | 3,067                             | 6,325           | (3,258)       | (51.5%)       |
| Amortization of fair value adjustments <sup>(2)</sup>                               | —                                 | 1,694           | (1,694)       | (100.0%)      |
| Foreign exchange loss   | 608                               | 331             | 277           | 83.7%         |
| Termination benefits and related costs <sup>(3)</sup>                               | 2,933                             | 4,132           | (1,199)       | (29.0%)       |
| Acquisition costs   | —                                 | 2,444           | (2,444)       | (100.0%)      |
| Purchase consideration accounted for as<br>compensation expense <sup>(4)</sup>      | (1,066)                           | 8,427           | (9,493)       | (112.6%)      |
| Public offering costs   | —                                 | 10,720          | (10,720)      | (100.0%)      |
| International market expansion <sup>(5)</sup>                                       | 929                               | —               | 929           | 100.0%        |
| Non-recurring business integration <sup>(6)</sup>                                   | 4,142                             | —               | 4,142         | 100.0%        |
| Other <sup>(7)</sup>  | 1,718                             | 1,004           | 714           | 71.1%         |
| <b>Adjusted EBITDA</b>  | <b>67,628</b>                     | <b>61,477</b>   | <b>6,151</b>  | <b>10.0%</b>  |
| Provision for income taxes  | (10,578)                          | (8,156)         | (2,422)       | (29.7%)       |
| Interest expense and other financing costs  | (9,000)                           | (4,733)         | (4,267)       | (90.2%)       |
| Depreciation of property, plant, and<br>equipment                                   | (5,551)                           | (5,106)         | (445)         | (8.7%)        |
| Amortization of intangible assets   | (3,495)                           | (3,396)         | (99)          | (2.9%)        |
| Share-based compensation <sup>(8)</sup>   | (2,532)                           | (2,154)         | (378)         | (17.5%)       |
| Amortization of deferred financing fee <sup>(9)</sup>                               | —                                 | 3,078           | (3,078)       | (100.0%)      |
| Net interest forgiveness  | —                                 | (11,001)        | 11,001        | 100.0%        |
| Tax effect of normalization adjustments   | (2,739)                           | (2,427)         | (312)         | (12.9%)       |
| <b>Adjusted net income</b>  | <b>33,733</b>                     | <b>27,582</b>   | <b>6,151</b>  | <b>22.3%</b>  |

- (1) In 2018, the Company's share-based compensation expense pertains to the LTIP (refer to "Share-based compensation"). In 2017, share-based compensation expense includes the Legacy Option Plan and the vesting of certain options issued to the former owner in relation to JLL's acquisition of LVHS on June 12, 2014. Expenses of \$1.7 million and \$1.0 million were also incurred in 2017 with respect to the accelerated vesting of certain options under the Legacy Option Plan in connection with the Initial Offering and Secondary Offering, respectively.
- (2) In conjunction with the acquisition of Body Plus and Sonoma on January 31, 2017, the fair value adjustment of inventory as part of the initial purchase price allocation was amortized.
- (3) Costs in 2018 were primarily related to the integration of our LVHS business with Body Plus, which includes the closure of our two west coast distribution facilities and the consolidation of supply chain activities. In 2017, costs primarily consisted of restructuring costs incurred in preparation for our Initial Offering. The costs for both years are mainly comprised of severance costs and salary continuance.
- (4) In conjunction with the acquisition of Body Plus and Sonoma on January 31, 2017, deferred consideration payable has been accounted for as compensation expense under the provisions of IFRS 3, Business Combinations. A portion of the deferred consideration of \$9.4 million was due to be

paid on the one-year anniversary of the acquisition with the remaining balance paid in July 2018. In 2018, the Company recognized a gain due to a \$2.0 million reduction of the Holdback Amount (refer to "Acquisitions") offset by deferred consideration expense in the period.

- (5) We incurred one-time expenses in relation to the incorporation of Jamieson Health Products (Shanghai) Co., Ltd., and incurred professional fees in establishing this presence including regulatory and logistical processes, distribution and supply agreements, along with costs incurred on a China market study.
- (6) We incurred non-employee related expenses associated with the integration of our LVHS and Body Plus businesses including the consolidation of offices, warehouses, supply chain activities, inventory write-offs, consulting fees and transition counselling.
- (7) In 2018, costs were mainly related to additional professional fee billings on our reorganization in relation to the Initial Offering, the initial set-up of our e-commerce platform, leasehold improvements and other expenses in relation to our head office expansion, and costs associated with the review and assessment of acquisition opportunities. In 2017, costs were mainly related to investments in process improvement projects and other one-time studies commissioned for the acquired Sonoma operations and cost incurred pertaining to our labour agreement.
- (8) In 2018, we normalize for PSUs granted to certain employees on May 31, 2018 and RSUs granted to certain employees on November 6, 2018 (refer to "Share-based compensation"). In 2017, we normalize for vesting of certain shares issued to the former owner in relation to JLL's acquisition of LVHS on June 12, 2014 and the accelerated vesting of certain options under the Legacy Option Plan in connection with the Initial Offering and Secondary Offering for \$1.7 million and \$1.0 million respectively.
- (9) Write-off of remaining deferred financing fees associated with the extinguishment of our term loan agreement with CPPIB Credit Investments Inc. and our revolving credit facility with Wells Fargo Capital Finance Corporation on January 31, 2017.

The following table provides selected financial information for our two operating segments for the year ended December 31, 2018 and December 31, 2017.

#### Jamieson Brands

| (\$ in 000's, except as otherwise noted)     | For the year ended<br>December 31 |         |           |          |
|--|-----------------------------------|---------|-----------|----------|
|  | 2018                              | 2017    | \$ Change | % Change |
| Revenue                                      | 243,772                           | 237,001 | 6,771     | 2.9%     |
| Gross profit                                 | 104,115                           | 91,559  | 12,556    | 13.7%    |
| Gross profit margin                          | 42.7%                             | 38.6%   | —         | 4.1%     |
| Selling, general and administrative expenses | 55,877                            | 47,639  | 8,238     | 17.3%    |
| Share-based compensation                     | 3,067                             | 6,325   | (3,258)   | (51.5%)  |
| Earnings from operations                     | 45,171                            | 37,595  | 7,576     | 20.2%    |
| Operating margin                             | 18.5%                             | 15.9%   | —         | 2.6%     |
| Adjusted EBITDA                              | 60,173                            | 52,834  | 7,339     | 13.9%    |
| Adjusted EBITDA margin                       | 24.7%                             | 22.3%   | —         | 2.4%     |

The following table provides a reconciliation from earnings from operations to Adjusted EBITDA for the year ended December 31, 2018 and December 31, 2017.

| (\$ in 000's, except as otherwise noted)       | For the year ended<br>December 31 |               |              |              |
|--|-----------------------------------|---------------|--------------|--------------|
|  | 2018                              | 2017          | \$ Change    | % Change     |
| Earnings from operations                       | 45,171                            | 37,595        | 7,576        | 20.2%        |
| Depreciation of property, plant, and equipment | 4,007                             | 3,803         | 204          | 5.4%         |
| Amortization of intangible assets              | 3,475                             | 3,396         | 79           | 2.3%         |
| Share-based compensation                       | 3,067                             | 6,325         | (3,258)      | (51.5%)      |
| Amortization of fair value adjustments         | —                                 | 1,694         | (1,694)      | (100.0%)     |
| International market expansion                 | 929                               | —             | 929          | 100.0%       |
| Non-recurring business integration             | 2,104                             | —             | 2,104        | 100.0%       |
| Other  | 1,420                             | 21            | 1,399        | 6661.9%      |
| Adjusted EBITDA                                | <b>60,173</b>                     | <b>52,834</b> | <b>7,339</b> | <b>13.9%</b> |

*Strategic Partners*

| (\$ in 000's, except as otherwise noted)     | For the year ended<br>December 31 |        |           |          |
|--|-----------------------------------|--------|-----------|----------|
|  | 2018                              | 2017   | \$ Change | % Change |
| Revenue                                      | 76,004                            | 63,618 | 12,386    | 19.5%    |
| Gross profit                                 | 11,303                            | 13,290 | (1,987)   | (15.0%)  |
| Gross profit margin                          | 14.9%                             | 20.9%  | —         | (6.0%)   |
| Selling, general and administrative expenses | 6,384                             | 5,950  | 434       | 7.3%     |
| Earnings from operations                     | 4,919                             | 7,340  | (2,421)   | (33.0%)  |
| Operating margin                             | 6.5%                              | 11.5%  | —         | (5.0%)   |
| Adjusted EBITDA                              | 7,455                             | 8,643  | (1,188)   | (13.7%)  |
| Adjusted EBITDA margin                       | 9.8%                              | 13.6%  | —         | (3.8%)   |

The following table provides a reconciliation from earnings from operations to Adjusted EBITDA for the year ended December 31, 2018 and December 31, 2017.

| (\$ in 000's, except as otherwise noted)       | For the year ended<br>December 31, |              |                |                |
|--|------------------------------------|--------------|----------------|----------------|
|  | 2018                               | 2017         | \$ Change      | % Change       |
| Earnings from operations                       | 4,919                              | 7,340        | (2,421)        | (33.0%)        |
| Depreciation of property, plant, and equipment | 1,544                              | 1,303        | 241            | 18.5%          |
| Amortization of intangible assets              | 20                                 | —            | 20             | 100.0%         |
| Non-recurring business integration             | 928                                | —            | 928            | 100.0%         |
| Other  | 44                                 | —            | 44             | 100.0%         |
| Adjusted EBITDA                                | <b>7,455</b>                       | <b>8,643</b> | <b>(1,188)</b> | <b>(13.7%)</b> |

Revenue

Revenue increased 6.4%, or \$19.2 million, to \$319.8 million in YTD 2018. This was mainly driven by \$20.1 million or 8.5% growth offset by the impact of revenue recognition change of \$13.3 million in Jamieson Brands and an increase in Strategic Partners revenues of \$12.4 million or 19.5% year-over-year. Under historical guidance (refer to *"How We Assess the Performance of our Business – Revenue"*), revenue increased 10.8%, or \$32.5 million, to \$333.1 million in YTD 2018.

Revenue in the Jamieson Brands segment increased 2.9%, or \$6.8 million, to \$243.8 million in YTD 2018. This was impacted by the revenue recognition accounting impact of \$13.3 million, while Jamieson Brands growth was 8.5%, or \$20.1 million, driven by higher domestic Jamieson sales of \$14.0 million, international growth of \$6.4 million, and the acquisition impact of Body Plus of \$2.9 million, offset by lower Specialty Brands sales of \$3.2 million. Our domestic Jamieson sales increased by 8.5% driven by continued strong consumer demand, innovations and our February price increase while our Specialty Brands declined 0.8% compared to the prior year as sales were impacted by the integration of our sales team and delayed innovation until Q4 2018. Our international sales increased by 30.1% year over year, as we penetrate into new areas within Europe and the Middle East while expanding in both new and existing markets within Asia.

Revenue in the Strategic Partners segment increased 19.5%, or \$12.4 million, to \$76.0 million in YTD 2018. The increase was mainly driven by new strategic partner business of \$11.3 million and revenue from our Sonoma acquisition of \$1.1 million.

Gross profit

Gross profit increased by \$10.6 million in YTD 2018 driven by revenue growth and a reclassification of trade related costs to SG&A in the current year. Gross profit margin increased by 120 basis points to 36.1% in YTD 2018 as margin expansion in the Jamieson Brands segment and the impact of lower reported revenues resulting from the revenue recognition change were partially offset by higher mix of Strategic Partner revenues.

Gross profit in the Jamieson Brands segment increased by \$12.6 million in YTD 2018 driven by higher volumes, plant efficiencies, a reclassification of trade related costs to SG&A in the current year, and the impact of amortization of fair value inventory adjustments related to the Body Plus acquisition in 2017 of \$1.7 million. Rising raw material prices impacting cost of sales were



offset by higher selling prices. Gross profit margin increased by 410 basis points due to realized plant efficiencies, the impact of amortization of fair value inventory adjustments recorded in the prior year, and the impact of lower reported revenues resulting from the revenue recognition change partially offset by overhead investments in supply chain and operations in the current year to drive long-term volume growth and operational efficiencies.

Gross profit in the Strategic Partners segment decreased by \$2.0 million to \$11.3 million in YTD 2018. Higher volumes were impacted by an expected reduction of margin as we benefited from favourable pricing and margins related to certain volumes in the prior year, an increase to inventory reserves of \$0.3 million, and business integration which resulted in inventory write-offs of \$0.7 million. Gross profit margin decreased by 600 basis points to 14.9% in YTD 2018 primarily due to customer mix discussed above.

#### Selling, general and administrative expenses

SG&A expenses increased by 16.2%, or \$8.7 million, to \$62.3 million in YTD 2018. In the Jamieson Brands segment, SG&A expenses increased by \$8.2 million due to \$4.4 million in non-recurring costs related to business integration, international market expansion, e-commerce initiation, and other non-recurring costs, \$1.3 million impact of an accounting presentation reclassification in the current year, the acquisition impact of Body Plus adding \$1.0 million in costs, \$1.3 million in public company costs, and higher marketing expenses of \$1.4 million partially offset by \$0.9 million related to lower compensation related costs and \$0.2 million in lower commissions. Total public company costs incurred in 2018 were \$2.5 million. In the Strategic Partners segment, SG&A expenses increased by \$0.4 million in YTD 2018 mainly due to the acquisition impact of Sonoma of \$0.2 million and non-recurring costs associated with business integration of \$0.3 million.

#### Share-based compensation

Share-based compensation decreased by \$3.3 million to \$3.1 million in YTD 2018 primarily due to the amortization of shares related to the acquisition of LVHS and the accelerated vesting of options as a result of the Initial Offering and the Secondary Offering in the prior year, partially offset by additional grants of options under the LTIP in the current year.

#### Earnings from operations and operating margin

Earnings from operations increased by \$5.2 million in YTD 2018 mainly driven by an increase in gross profit within the Jamieson Brands segment. Operating margin increased by 80 basis points to 15.7% due to lower reported revenues resulting from the revenue recognition change, the impact of share-based compensation related to the accelerated vesting in the prior year, and the impact of fair value adjustments in the prior year, partially offset by the impact of non-recurring SG&A.

Earnings from operations in the Jamieson Brands segment increased by \$7.6 million mainly driven by higher gross profit. Operating margin increased 260 basis points to 18.5% in YTD 2018 due to gross profit margin improvements discussed above, lower reported revenues resulting from the revenue recognition change, the impact of share-based compensation related to the accelerated vesting in the prior year, and the impact of fair value adjustments in the prior year, partially offset by the impact of non-recurring SG&A.

Earnings from operations in the Strategic Partners segment decreased by \$2.4 million to \$4.9 million and operating margin decreased by 500 basis points to 6.5% in YTD 2018 as a result of the planned reduction in gross profit margin discussed above.

#### Foreign exchange loss

Foreign exchange loss increased by \$0.3 million in YTD 2018. The change was due to fluctuations in USD/CAD exchange rates between the date of the transaction and when cash was settled.

#### Termination benefits and related costs

Termination benefits and related costs decreased by \$1.2 million to \$2.9 million in YTD 2018. In 2018, the Company incurred costs associated with integrating our LVHS and Body Plus businesses. In YTD 2017, costs were primarily restructuring costs incurred in connection with our Initial Offering. The costs for both years are mainly comprised of severance costs and salary continuance.

#### Public offering costs

Public offering costs of \$10.7 million in YTD 2017 were related to our Initial Offering (refer to “*Initial Public Offering*”) and our Secondary Offering (refer to “*Secondary Offering*”).

#### Acquisition costs

Acquisition costs of \$2.4 million in YTD 2017 were related to the January 31, 2017 acquisition of Body Plus and Sonoma.

Other expenses

Other expenses in YTD 2018 are comprised of non-recurring, non-employee related business integration and other consulting costs of \$1.4 million, offset by the reduction of consideration on the acquisition of Body Plus and Sonoma of \$1.1 million. Other expenses of \$9.4 million in YTD 2017 were mainly related to deferred consideration in relation to the acquisition of Body Plus and Sonoma for \$8.4 million, other non-recurring consulting services of \$0.7 million, costs relating to our labour agreement for \$0.2 million and other advisory fees of \$0.1 million.

Preferred share accretion

Preferred share accretion was \$nil in YTD 2018 compared to \$28.8 million of expense in YTD 2017. The charge in the prior year was tied to the change in the underlying fair value of the Company based on a multiple of Adjusted EBITDA. There will be no further preferred share accretion as all preferred shares have been converted into Common Shares of the Company as part of the Reorganization (refer to "*Initial Public Offering*").

Interest expense and other financing costs

Interest expense and other financing costs were \$9.0 million in YTD 2018 compared to \$4.7 million in YTD 2017. The amount reported in 2017 included the discharge of the note payable to Finco which resulted in net interest forgiveness of \$11.0 million partially offset by \$2.0 million interest on the note in the period. In YTD 2018, amortization of deferred financing fees was \$3.0 million lower as the prior year included a write-off associated with the extinguishment of debt on January 31, 2017. Interest was also \$1.7 million lower than the prior year based on lower interest rates and lower levels of borrowing.

Provision for income taxes

Provision for income taxes increased by \$2.4 million to \$10.6 million in YTD 2018. Our YTD 2018 effective tax rate of 28.4% was impacted by a \$1.1 million accounting gain for deferred purchase consideration associated with the acquisition of Body Plus and Sonoma and non-deductible share-based compensation. Our YTD 2017 effective tax rate of 52.2% was driven by a number of factors in the prior year including share-based compensation, deferred purchase consideration accounted for as compensation expense and preferred share accretion which were not deductible for tax purposes.

Depreciation

Depreciation expense increased by \$0.4 million to \$5.6 million in YTD 2018 due to increases in our investments in property, plant and equipment.

Amortization

Amortization expense remained relatively consistent with the same period in the prior year. A minor increase was due to amortization of intangibles pertaining to customer relationships acquired as part of the acquisition of Body Plus and Sonoma, our investment in domestic and international product registrations, and our investment in website development costs.

EBITDA and Adjusted EBITDA

EBITDA increased by \$28.9 million to \$55.3 million in YTD 2018 primarily due to the factors discussed above.

Adjusted EBITDA increased by \$6.2 million to \$67.6 million and Adjusted EBITDA margin increased by 60 basis points to 21.1% for the year mainly due to gross profit margin improvements in the Jamieson Brands segment and the impact of lower reported revenues resulting from the revenue recognition change, partially offset by Strategic Partners margin affected by customer mix and higher public company costs.

Adjusted EBITDA in the Jamieson Brands segment increased by \$7.3 million to \$60.2 million and Adjusted EBITDA margin increased by 240 basis points to 24.7% for the year. This was mainly driven by gross profit margin improvements and the impact of lower reported revenues resulting from the revenue recognition change, partially offset by higher planned SG&A increases related to marketing and public company costs.

Adjusted EBITDA in the Strategic Partners segment decreased by \$1.2 million, to \$7.5 million and Adjusted EBITDA margin decreased by 380 basis points to 9.8% in YTD 2018 mainly due to lower gross profit margins discussed above.

## Summary of Consolidated Quarterly Results

The following is a summary of selected consolidated financial information for each of the eight most recently completed quarters prepared in accordance with IFRS. As of January 1, 2018, the Company has adopted IFRS 15 using the modified retrospective method (refer to “Recently adopted accounting standards”). The adoption of IFRS 15 resulted in a reclassification in the presentation of certain consideration paid to customers, which was made to the annual consolidated financial statements for the year ended December 31, 2018. Management has revised all prior quarters in 2018 for this reclassification in the below summary. Due to the adoption of IFRS 15 and other factors listed below, the results of operations for any quarter are not necessarily indicative of the result of operations for the fiscal year.

| (\$ in 000's, except per share amounts) | 2018          |               |               |               | 2017          |               |                |                 |
|---|---------------|---------------|---------------|---------------|---------------|---------------|----------------|-----------------|
|   | Q4            | Q3*           | Q2*           | Q1*           | Q4            | Q3            | Q2             | Q1              |
| <b>Revenue by segment</b>               |               |               |               |               |               |               |                |                 |
| Jamieson Brands                         | 69,715        | 61,787        | 55,701        | 56,569        | 65,545        | 61,889        | 56,647         | 52,920          |
| Strategic Partners                      | 29,430        | 17,872        | 18,492        | 10,210        | 18,773        | 18,256        | 14,608         | 11,981          |
| <b>Total revenue</b>                    | <b>99,145</b> | <b>79,659</b> | <b>74,193</b> | <b>66,779</b> | <b>84,318</b> | <b>80,145</b> | <b>71,255</b>  | <b>64,901</b>   |
| <b>Earnings from operations</b>         | <b>17,102</b> | <b>12,690</b> | <b>10,172</b> | <b>10,126</b> | <b>14,933</b> | <b>11,281</b> | <b>10,699</b>  | <b>8,022</b>    |
| <b>Net income (loss)</b>                | <b>10,046</b> | <b>7,213</b>  | <b>4,788</b>  | <b>4,626</b>  | <b>3,733</b>  | <b>1,089</b>  | <b>(6,958)</b> | <b>(21,651)</b> |
| <b>Adjusted net income</b>              | <b>12,217</b> | <b>8,853</b>  | <b>6,903</b>  | <b>5,760</b>  | <b>9,749</b>  | <b>7,793</b>  | <b>7,870</b>   | <b>2,170</b>    |
| <b>EBITDA</b>                           | <b>19,220</b> | <b>14,771</b> | <b>10,967</b> | <b>10,339</b> | <b>11,194</b> | <b>8,346</b>  | <b>3,255</b>   | <b>3,605</b>    |
| <b>Adjusted EBITDA</b>                  | <b>22,933</b> | <b>17,856</b> | <b>14,153</b> | <b>12,686</b> | <b>18,848</b> | <b>16,134</b> | <b>15,071</b>  | <b>11,424</b>   |
| Basic, earnings (loss) per share        | 0.26          | 0.19          | 0.13          | 0.12          | 0.10          | (0.24)        | (13.37)        | (41.62)         |
| Diluted, earnings (loss) per share      | 0.25          | 0.18          | 0.12          | 0.12          | 0.09          | (0.24)        | (13.37)        | (41.62)         |
| Adjusted Diluted, earnings per share    | 0.31          | 0.22          | 0.17          | 0.15          | 0.25          | 0.20          | 0.20           | 0.05            |

\* Revised based on IFRS 15 revenue reclassification

Results for the year ended December 31, 2018 are presented under the new guidance, while prior year results have not been adjusted and continue to be reported in accordance with historical accounting guidance. If the IFRS 15 revenue recognition impact was applied retrospectively to 2017, total revenue for the year would have been \$286.1 million compared to total revenue in 2018 of \$319.8 million, representing year-over-year growth of 11.8%.

### Revenue

Jamieson Brands segment revenue for the last eight quarters were impacted by factors including the following:

- the impact of innovation, both in adjacent categories and within our core VMS portfolio;
- shipment fluctuations in our international markets;
- the volume and timing of promotion and media;
- the volume of inventory and timing of shipments to distributors and retailers;
- seasonality; and
- foreign currency fluctuations.

Strategic Partners segment revenue for the last eight quarters were impacted by factors including the following:

- available capacity when considering demand for Branded Products;
- innovation and geographic demand for high quality certified manufacturers;
- the impact of a change from a turnkey arrangement to tolling for certain products;
- periodic price increases to recapture cost escalation; and
- foreign currency fluctuations.

**Earnings from operations**

Earnings from operations for the last eight quarters were also impacted by factors including the following:

- revenue factors impacting price and volume noted above;
- return on incremental promotion and media spend;
- improvements in production efficiencies and higher economies of scale;
- raw material costs in native currency; and
- foreign currency fluctuations.

**Selected Annual Information**

The following selected annual information is shown for the three most recently completed financial years:

| (\$ in 000's, except share and per share amounts)     | For the year ended<br>December 31 |                 |                 |
|---|-----------------------------------|-----------------|-----------------|
|   | 2018                              | 2017            | 2016            |
| <b>Revenue</b>  | <b>319,776</b>                    | <b>300,619</b>  | <b>248,331</b>  |
| <b>Earnings from operations</b>                       | <b>50,090</b>                     | <b>44,935</b>   | <b>31,041</b>   |
| <b>Net income (loss)</b>                              | <b>26,673</b>                     | <b>(23,787)</b> | <b>(25,166)</b> |
| <b>Adjusted net income</b>                            | <b>33,733</b>                     | <b>27,582</b>   | <b>10,910</b>   |
| <b>EBITDA</b>   | <b>55,297</b>                     | <b>26,400</b>   | <b>39,446</b>   |
| <b>Adjusted EBITDA</b>                                | <b>67,628</b>                     | <b>61,477</b>   | <b>46,794</b>   |
| Basic, earnings (loss) per share                      | 0.70                              | (1.79)          | (48.37)         |
| Diluted, earnings (loss) per share                    | 0.67                              | (1.79)          | (48.37)         |
| Adjusted Diluted, earnings (loss) per share           | 0.85                              | 0.70            | 0.28            |
| <b>Selected Consolidated Financial Position Data:</b> |                                   |                 |                 |
| Total assets  | 549,021                           | 512,555         | 405,179         |
| Total non-current liabilities                         | 205,739                           | 210,012         | 305,023         |

Over the three-year period, revenue increased year-over-year driven by growth in the Jamieson Brands segment through innovations and international expansion, growth in the Strategic Partners segment through increased business with existing and new customers, and additional revenue through acquisitions (refer to "Acquisitions"). Total assets have increased over the three-year period reflecting acquisitions and strategic investments in property, plant, and equipment designed to improve efficiency or expand capacity.

**Dividends declared for the year ended December 31, 2018:**

|                                  |      |
|----------------------------------|------|
| Cash dividends per common share: | 0.34 |
|----------------------------------|------|

**Dividends declared for the year ended December 31, 2017:**

|                                  |      |
|----------------------------------|------|
| Cash dividends per common share: | 0.16 |
|----------------------------------|------|

Cash dividends per each former class of preferred share:

|         |       |         |       |         |       |         |       |
|---------|-------|---------|-------|---------|-------|---------|-------|
| Class A | 0.419 | Class G | 0.921 | Class M | 0.853 | Class S | 0.371 |
| Class B | 1.022 | Class H | 0.920 | Class N | 0.754 | Class T | 0.243 |
| Class C | 0.929 | Class I | 0.916 | Class O | 0.749 | Class U | 0.254 |
| Class D | 0.928 | Class J | 0.912 | Class P | 0.746 | Class V | 0.229 |
| Class E | 0.923 | Class K | —     | Class Q | 0.740 | Class W | 0.001 |
| Class F | 0.922 | Class L | 0.905 | Class R | —     |         |       |

In 2017, immediately prior to the closing of the Initial Offering (refer to “Initial Public Offering”) the Company declared accrued and unpaid dividends (at 4.5% compounded quarterly) on the then outstanding class A to V and class W preferred shares in an aggregate amount of \$9.6 million. The Company also declared cash dividends for the second and third quarter of 2017 for \$0.08 per Common Share and \$0.08 per Common Share, respectively. No dividends were paid in 2016.

## Liquidity and Capital Resources

### Overview

Our principal uses of funds are for operating expenses, capital expenditures, finance costs, and debt service. Management believes that cash generated from operations, together with amounts available under the Credit Facilities (refer to “Credit Facilities” section below), will be sufficient to meet the Company’s future operating expenses, capital expenditures, and future debt service costs.

Our primary liquidity and capital requirements are for capital expenditures, working capital and general corporate needs. We have cash and availability under the Revolving Credit Facility (refer to “Credit Facilities” section below) that we expect to utilize, along with cash flow from operations, to provide capital to support the growth of our business (primarily through working capital and capital expenditures), repay short-term obligations and for general corporate purposes. We believe that cash from operations, together with our cash balance and the Revolving Credit Facility will be sufficient to meet ongoing capital expenditures, working capital requirements and other cash needs.

Our ability to fund future debt service costs, operating expenses, and capital expenditures will depend on our future operating performance which will be affected by general economic, financial and other factors including factors beyond our control (refer to “Risk Factors”). From time to time, our management reviews acquisition opportunities and if suitable opportunities arise, may make selected acquisitions to implement our business strategy. Historically, the funding for any such acquisitions has come from cash flow from operating activities and additional debt.

### Credit Facilities

On January 31, 2017, JLL entered into a credit agreement (the “Credit Agreement”) with a syndicate of lenders. The Credit Agreement provided a secured term credit facility of \$195.0 million (with the option to increase the facility up to \$255.0 million) and a secured revolving credit facility of \$75.0 million (including a \$10.0 million swingline facility) (collectively, the “Credit Facilities”). The Credit Facilities mature on January 31, 2021 with the outstanding principal repayable in full on this date. Financing costs of \$4.3 million and \$1.5 million were incurred as part of the issuance of the term credit facility and revolving credit facility, respectively.

As at December 31, 2018, the aggregate amount outstanding under the Credit Facilities was approximately \$168.9 million (\$41.0 million under the Revolving Credit Facility and \$127.9 million under the Term Loan Facility) and the weighted average interest rate on this facility was 4.3%.

For the three and twelve months ended December 31, 2018, JLL made drawings of \$nil and \$nil, respectively, and debt repayments of \$2.4 million and \$9.8 million, respectively, applied against the term credit facility. For the three and twelve months ended December 31, 2018, JLL made drawings of \$14.3 million and \$37.9 million, respectively, and debt repayments of \$17.3 million and \$26.9 million, respectively, applied against the revolving credit facility.

The Credit Facilities are secured by a general security agreement and first charge over the assets including property, plant and equipment of JLL and its subsidiaries, subject to permitted liens. Under the terms of the Credit Facilities, JLL is subject to restrictive covenants and must maintain an interest coverage ratio of not less than 3.00:1.00 and a leverage ratio not greater than 4.05:1.00. JLL is in compliance with all covenants as at the date of this MD&A.

### Analysis of Cash Flows – three months ended December 31, 2018 and 2017

| (\$ in 000’s, except as otherwise noted) | Three months ended<br>December 31 |              |              |               |
|--|-----------------------------------|--------------|--------------|---------------|
|  | 2018                              | 2017         | \$ Change    | % Change      |
| <b>Cash, beginning of period</b>         | <b>2,815</b>                      | <b>1,196</b> | <b>1,619</b> | <b>135.4%</b> |
| Cash flows from (used in):               |                                   |              |              |               |
| Operating activities                     | 22,233                            | 17,194       | 5,039        | 29.3%         |
| Investing activities                     | (4,611)                           | (2,056)      | (2,555)      | (124.3%)      |
| Financing activities                     | (7,992)                           | (11,501)     | 3,509        | 30.5%         |
| <b>Cash, end of period</b>               | <b>12,445</b>                     | <b>4,833</b> | <b>7,612</b> | <b>157.5%</b> |

Cash Flows Generated from Operating Activities

In Q4 2018, cash flows generated from operating activities totalled \$22.2 million compared to \$17.2 million in the prior year. The increase is due to cash generated in operating activities before working capital considerations of \$4.7 million and an increase in cash generated in working capital of \$0.3 million. The increase of cash generated from working capital is primarily driven from the drawdown of inventory from Strategic Partner volumes and timing of vendor payments. Net change in operating activities before working capital considerations was higher primarily due to increased earnings in the current year.

Cash Flows Used in Investing Activities

Cash flows used in investing activities in Q4 2018 totalled \$4.6 million compared to \$2.1 million in the prior year. This is mainly due to increased expenditures on property, plant, and equipment of \$2.3 million including the expansion of our production capacities and costs associated with our office expansion.

Cash Flows Used in Financing Activities

Cash flows used in financing activities in Q4 2018 totalled \$8.0 million compared to \$11.5 million for the same period in the prior year. In Q4 2018, the Company paid \$3.4 million of dividends to Common Shareholders, made net repayments of \$5.5 million to our Credit Facilities and received funds of \$0.9 million on the exercise of share options and the employee share purchase plan ("ESPP"). In Q4 2017, the Company paid \$3.0 million of dividends to Common Shareholders, made net repayments of \$8.7 million to our Credit Facilities and received funds of \$0.2 million on the exercise of share options and the ESPP.

**Analysis of Cash Flows – for the year ended December 31, 2018 and 2017**

| (\$ in 000's, except as otherwise noted) | For the year ended<br>December 31 |               |                 |                |
|--|-----------------------------------|---------------|-----------------|----------------|
|  | 2018                              | 2017          | \$ Change       | % Change       |
| <b>Cash, beginning of period</b>         | <b>4,833</b>                      | <b>15,881</b> | <b>(11,048)</b> | <b>(69.6%)</b> |
| Cash flows from (used in):               |                                   |               |                 |                |
| Operating activities                     | 27,805                            | 17,845        | 9,960           | 55.8%          |
| Investing activities                     | (11,537)                          | (87,486)      | 75,949          | 86.8%          |
| Financing activities                     | (8,656)                           | 58,593        | (67,249)        | (114.8%)       |
| <b>Cash, end of period</b>               | <b>12,445</b>                     | <b>4,833</b>  | <b>7,612</b>    | <b>157.5%</b>  |

Cash Flows Generated from Operating Activities

For YTD 2018, cash flows generated from operating activities totalled \$27.8 million, compared to \$17.8 million for the same period in the prior year. The increase is mainly due to a reduction of cash used in working capital of \$2.7 million, cash generated in operating activities before working capital considerations of \$14.6 million, partially offset by \$7.3 million of deferred compensation associated with our acquisition of Body Plus and Sonoma. The change in working capital was favourably impacted by timing of vendor payments and a reduction of accounts receivable due to timing of collection from major customers. Net change in operating activities before working capital considerations was higher primarily due to increased earnings in the current year and public offering costs incurred in the prior year.

Cash Flows Used in Investing Activities

Cash flows used in investing activities in YTD 2018 totalled \$11.5 million compared to \$87.5 million for the same period in the prior year. This is mainly due to the acquisition of Body Plus and Sonoma for \$82.5 million in the prior year. Expenditures for property, plant, and equipment increased by \$6.2 million in YTD 2018 mainly due to expansion of our production capacities and costs associated with our office expansion net of asset disposals. Slight increase in intangibles of \$0.3 million pertains to domestic and international product registrations and website development costs.

Cash Flows Used in / Generated from Financing Activities

Cash flows used in financing activities in YTD 2018 totalled \$8.7 million compared to cash flows generated of \$58.6 million in the prior year. In YTD 2018, we received net proceeds of \$1.3 million from our Credit Facilities and \$3.0 million in the exercise of share options and the ESPP, offset by the issuance of \$12.9 million of dividends to Common Shareholders. In YTD 2017, the Initial Offering generated net proceeds net of transaction costs to the Company of \$230.2 million, we received net proceeds of \$11.8 million from our Credit Facilities, and we received \$1.3 million from the issuance of redeemable preferred shares and \$0.2 million from the exercise of share options and the ESPP. This was offset by a return of capital on the then outstanding class A to V preferred shares of \$65.1 million, a repayment of our note payable to Finco of \$94.6 million, Finco Tax Payable of \$3.7 million,

financing costs of \$5.8 million, dividends on the then outstanding class A to V and class W preferred shares of \$9.6 million and \$6.0 million of dividends to Common Shareholders.

### Acquisitions

On January 31, 2017, JLL acquired 100% of the outstanding shares of Body Plus and Sonoma, and Body Plus and Sonoma became wholly-owned subsidiaries of JLL.

Consideration for the acquisition totalled \$82.5 million (net of cash acquired), plus acquisition costs of \$3.2 million which were recognized in the consolidated statements of operations and comprehensive income (loss) of the Company for the year ended December 31, 2017, except for approximately \$0.8 million of the acquisition costs which the Company recognized during the year ended December 31, 2016. The purchase price was funded with cash. An additional \$1.9 million was to be paid as a retention bonus (the "Retention Bonus") to key employees of Body Plus and Sonoma, subject to these individuals remaining employed for 12 and/or 18 months following the closing of the acquisition. Further, pursuant to the purchase agreement, the former owner is entitled to a \$7.5 million payment (the "Holdback Amount") from JLL subject to a consulting agreement entered into between JLL and the former owner, if the consulting relationship continues for 12 months following the closing of the acquisition. In accordance with IFRS 3 "Business Combination", the deferred compensation of \$9.4 million comprised of the Holdback Amount and the retention bonus have been accounted for as deferred compensation.

On January 31, 2018, the Company paid the former owner a reduced Holdback Amount of \$5.5 million (representing a \$2.0 million reduction) in exchange for the Company releasing the remaining balance held in escrow to the former owner in relation to the general and tax indemnities and releasing the former owner from the Company's post-closing indemnification rights under the purchase agreement. In addition, the Company paid \$1.8 million of the Retention Bonus for total payments of deferred compensation of \$7.3 million to settle the liability. No further payments are expected.

For the three and twelve month period ended December 31, 2018, we have recognized a net gain of \$nil and \$1.1 million, respectively, of deferred consideration (2017 – an expense of \$2.5 million and \$8.4 million) in the other expenses line in the consolidated statements of operations and comprehensive income (loss).

Body Plus markets, develops and distributes premium quality sports nutrition products under the Progressive, Precision and Iron Vegan brands. Sonoma manufactures, develops and distributes sports nutrition products, supplements and also provides contract manufacturing services. In addition to expanding into a growing adjacent category within the consumer health industry, these acquisitions increased our presence in the health food store and other specialty retail channels, while expanding our R&D and manufacturing capabilities.

### Contractual Obligations

The following table summarizes our significant undiscounted maturities of our contractual obligations and commitments as at December 31, 2018.

| (\$ in 000's)                            | 2019           | 2020-2023      | Thereafter   | Total          |
|--|----------------|----------------|--------------|----------------|
| Operating leases <sup>(1)</sup>          | 2,790          | 3,436          | 3,882        | 10,108         |
| Trade and other payable                  | 83,481         | —              | —            | 83,481         |
| Revolving credit facility <sup>(2)</sup> | —              | 41,000         | —            | 41,000         |
| Term credit facility <sup>(2)</sup>      | 14,625         | 113,313        | —            | 127,938        |
| <b>Total contractual obligations</b>     | <b>100,896</b> | <b>157,749</b> | <b>3,882</b> | <b>262,527</b> |

(1) We have entered into several operating leases for vehicles, production equipment, computer and communications equipment, office equipment and office space. In 2018, the Company has entered into a sublease agreement, as a lessee, as part of our head office relocation with a commencement date of November 1, 2018 expiring March 29, 2022. Based on the terms and conditions set forth in the sublease agreement, the expected total rent payment is \$3.1 million for the full duration of the sublease. As of December 31, 2018, our total minimum lease payments payable in future years are \$10.1 million.

(2) On January 31, 2017, JLL entered into a Credit Agreement with a syndicate of lenders which is comprised of a revolving credit facility and a term loan facility each maturing on January 31, 2021.

### Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements that have or are reasonably likely to have a current or future material effect on our financial condition, revenues or expenses, results of operations, liquidity, capital expenditures, or capital resources.

### Related Party Transactions

Balances and transactions between us and our subsidiaries, have been eliminated on consolidation.

*Share-based compensation*

We have an equity-based compensation plan providing for the issuance of securities under which grants will be made. Under the LTIP, the Board of Directors, at its discretion may grant share options, restricted shares, RSUs or PSUs, stock appreciation rights and deferred share units. The awards are settled in Common Shares but have a cash settlement alternative in certain circumstances. We also maintain the ESPP for all eligible employees for the purchase of Common Shares.

Our share-based compensation expense, for the three and twelve months ended December 31, 2018 is \$1.3 million and \$3.1 million, respectively (2017 – \$1.7 million and \$4.8 million). Please refer to Note 2 and Note 16 in the accompanying notes of our Company's audited consolidated annual financial statements for the year ended December 31, 2018 for details of these plans.

**Financial Instruments**

We primarily use foreign currency forward contracts to manage our exposure to fluctuations with respect to transactions in U.S. dollars pertaining to inventory purchases. These agreements mature at various dates and qualify for hedge accounting as cash flow hedges of future foreign currency transactions. The terms of the foreign currency forward contracts match the terms of the expected highly probable forecast transactions. As a result, there is no hedge ineffectiveness to be recognized in the consolidated statements of operations and comprehensive income (loss).

**Outstanding Share Capital and Redeemable Preferred Shares**

The following tables reflect the impact of the share split as it was retrospectively applied to all periods presented.

|                                | Common Shares     |                |
|--------------------------------|-------------------|----------------|
|                                | #                 | \$             |
| <b>As at December 31, 2017</b> | <b>37,740,121</b> | <b>234,908</b> |
| Exercise of stock options      | 448,943           | 4,102          |
| Employee stock purchase plan   | 18,050            | 394            |
| <b>As at December 31, 2018</b> | <b>38,207,114</b> | <b>239,404</b> |

|   | Common Shares     |                |
|---|-------------------|----------------|
|   | #                 | \$             |
| <b>As at December 31, 2016</b>            | <b>520,253</b>    | <b>400</b>     |
| Issued during the period (net)            | 15,554,755        | 233,534        |
| Exercise of options                       | 261,233           | 174            |
| Exchange of Class A to V preferred shares | 21,403,880        | 800            |
| <b>As at December 31, 2017</b>            | <b>37,740,121</b> | <b>234,908</b> |

|   | Class A-V Preferred Shares |                | Class W Preferred Shares |          |
|---|----------------------------|----------------|--------------------------|----------|
|   | #                          | \$             | #                        | \$       |
| <b>As at December 31, 2016</b>            | <b>21,314,440</b>          | <b>197,901</b> | —                        | —        |
| Issued during the year                    | 96,636                     | 1,391          | 94,592,252               | 94,592   |
| Accelerated vesting of preferred shares   | —                          | 11,527         | —                        | —        |
| Repurchased during the year               | (7,196)                    | (50)           | —                        | —        |
| Redeemed during the year                  | (21,403,880)               | (239,565)      | (94,592,252)             | (94,592) |
| Preferred share accretion during the year | —                          | 28,796         | —                        | —        |
| <b>As at December 31, 2017</b>            | <b>—</b>                   | <b>—</b>       | <b>—</b>                 | <b>—</b> |

As at December 31, 2018, the authorized share capital consisted of:

- Unlimited number of Common Shares with no par value. The holders of Common Shares are entitled to receive dividends as declared from time to time, and are entitled to one vote per share at meetings of the Company.
- Unlimited number of Preference Shares, issuable in series.



## Critical Accounting Estimates and Judgments

The preparation of consolidated financial statements in accordance 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. Estimates and assumptions are continuously evaluated and are based on management's best judgments and experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. Actual results may differ from these estimates.

Significant judgments made by management in applying our accounting policies and key sources of estimation of uncertainty were the same as those applied and described in Note 3 in the accompanying notes of our Company's audited consolidated annual financial statements for the year ended December 31, 2018. Items subject to significant estimate uncertainty and critical judgements which have the most significant impact on the amounts recognized in the consolidated financial statements are included both below and in the annual audited financial statement notes.

### Useful lives of property, plant and equipment and intangible assets with finite useful lives

We employ significant estimates to determine the estimated useful lives of property, plant and equipment and intangible assets with finite useful lives, including assets arising from business combinations, considering industry trends such as technological advancements, past experience, expected use and review of asset lives.

Components of an item of property, plant and equipment may have different useful lives. We make estimates when determining depreciation methods, depreciation rates and asset useful lives, which requires taking into account industry trends and company-specific factors. We review these decisions at least once each year or when circumstances change. We will change depreciation methods, depreciation rates or asset useful lives if they are different from previous estimates.

### Long-lived assets valuation

We perform impairment testing annually for goodwill and indefinite-life intangible assets and when circumstances indicate long-lived assets may be impaired. Management judgement is involved in determining if there are circumstances indicating that testing for impairment is required, and in identifying cash-generating units ("CGU") for the purpose of impairment testing. We assess impairment by comparing the recoverable amount of a long-lived asset, CGU, or CGU group to its carrying value. The recoverable amount is defined as the higher of: (i) value in use; or (ii) fair value less costs of disposal.

The determination of the recoverable amount involves significant estimates and assumption. Fair value less costs to sell is determined using market multiples. Value in use is determined using future cash inflows and outflows, discount rates, growth rates and asset lives. These estimates and assumptions could affect our future results if the current estimates of future performance and fair values change. These determinations will affect the amount of amortization expense on definite-life intangible assets recognized in future periods.

### Valuation of inventory

Management makes estimates of the future customer demand for products when establishing appropriate provisions for inventory. In making these estimates, management considers the product life of inventory and the profitability of recent sales of inventory. In many cases, products sold by us turn quickly and inventory on-hand values are low, thus reducing the risk of inventory obsolescence. However, code or "best before" dates are very important in the determination of realizable value of inventory. Management ensures that systems are in place to highlight and properly value inventory that may be approaching code dates. To the extent that actual losses on inventory differ from those estimated, inventory, net income (loss), and comprehensive income (loss) will be affected in future periods.

### Estimating variable consideration for returns, trade merchandise allowances and sales promotional incentive

We use historical customer return data to determine the expected return percentages. These percentages are applied to determine the expected value of the variable consideration. Any significant changes in experience as compared to historical return patterns will impact the expected return percentages we estimated.

We provide for estimated payments to customers based on various trade programs and sales promotional incentives. We estimate the most likely amount payable to each customer for each trade and incentive program separately using (i) the projected level of sales volume for the relevant period; (ii) customer rates for allowances, discounts, and rebates; (iii) historical spending patterns; and (iv) sales lead time. These arrangements are complex and there are a significant number of customers and products affected. Management has systems and processes in place to estimate and value these obligations.

We update our expected return, trade merchandise allowances and sales promotional incentives on a quarterly basis and the refund liability and trade and promotional accruals are adjusted accordingly. To the extent that payments differ from estimates of the related liability, accounts payable and accrued liabilities, net income (loss), and comprehensive income (loss) will be affected in future periods.

#### **Employee benefit plans**

The cost of post-employment medical benefits and the present value of the benefit obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, mortality rates and future benefit cost increases. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

The parameter most subject to change is the discount rate. In determining the appropriate discount rate, management considers the interest rates of high quality corporate bonds and extrapolated as needed along the yield curve to correspond with the expected term of the defined benefit obligation. The underlying bonds are further reviewed for quality. Those having excessive credit spreads are removed from the analysis of bonds on which the discount rate is based, on the basis that they do not represent high quality bonds.

The mortality rate is based on publicly available mortality tables. Those mortality tables tend to change only at intervals in response to demographic changes. Inflation, health care and dental costs are based on expected trend rates for the respective segment.

#### **Measurement of fair values**

A number of our accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities. When the measurement of fair values cannot be determined based on quoted prices in active markets, fair value is measured using valuation techniques and models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. Changes in assumptions about the inputs to these models could affect the reported fair value of our financial and non-financial assets and liabilities.

Tangible and intangible assets acquired through business combinations are initially recorded at their fair values based on assumptions of management. These assumptions include the future expected cash flows arising from the tangible and intangible assets identified. Financial instruments acquired are determined based on the amortized costs at the acquisition date which approximate their carrying values.

To the extent that these estimates differ from those realized, the measured asset or liability, net income (loss), and/or comprehensive income (loss) will be affected in future periods.

#### **Taxes**

The calculation of current and deferred income taxes requires us to make estimates and assumptions and to exercise judgement regarding the carrying values of assets and liabilities which are subject to accounting estimates inherent in those balances, the interpretation of income tax legislation across various jurisdictions, expectations about future operating results, the timing of reversal of temporary differences and possible audits of income tax filings by the tax authorities.

Changes or differences in underlying estimates or assumptions may result in changes to the current or deferred income tax balances on the consolidated statements of financial position, a charge or credit to income tax expense in the consolidated statements of operations and comprehensive income (loss) and may result in cash payments or receipts.

All income, capital and commodity tax filings are subject to audits and reassessments. Changes in interpretations or judgements may result in a change in our income, capital or commodity tax provisions in the future. The amount of such a change cannot be reasonably estimated.

#### **Significant Accounting Policies**

Our audited consolidated annual financial statements have been prepared in accordance with IFRS and our significant accounting policies are described in Note 2 in the accompanying notes of our audited consolidated annual financial statements for the year ended December 31, 2018.

#### **Recently adopted accounting standards**

The following accounting policies are applicable for the three and twelve month period ended December 31, 2018 and onwards. Please refer to the accounting policies we have outlined in our December 31, 2017 annual audited consolidated financial statements for details on the accounting policies applicable to comparative amounts.

## IFRS 9, “Financial Instruments”

IFRS 9, “Financial Instruments” (“IFRS 9”), replaces the provisions of IAS 39, “Financial Instruments Recognition and Measurement” for annual periods beginning on or after January 1, 2018. IFRS 9 includes the recognition, classification and measurement of financial assets and financial liabilities; a forward looking “expected loss” impairment model and a substantially-reformed approach to hedge accounting. IFRS 9 also amended IFRS 7, “Financial Instruments: Disclosures”, which requires additional disclosures. With the exception of hedge accounting, which we applied prospectively, we have applied IFRS 9 retrospectively, with the initial application date of January 1, 2018. As permitted by the transitional provisions of IFRS 9, we elected not to restate comparative figures or note disclosures. Any adjustments to the carrying amounts of financial assets and liabilities at the transition date are to be recognized in the opening retained earnings of the current period. However, management have assessed that no adjustments to the carrying amounts of financial assets and liabilities were required upon adoption of IFRS 9.

The adoption of IFRS 9 has resulted in the following changes in our accounting policies for financial instruments.

### *Classification and measurement*

All financial assets and liabilities are recognized initially at fair value plus, in the case of financial instruments not at fair value through profit or loss (“FVTPL”), transaction costs.

Debt financial instruments are subsequently measured at fair value through profit or loss (“FVTPL”), fair value through other comprehensive income (“FVOCI”), or amortized cost using the effective interest rate method. We determine the classification of our financial assets based on our business model for managing the financial assets and whether the instruments’ contractual cash flows represent solely payments of principal and interest on the principal amount outstanding. Our derivatives not designated as a hedging instrument in a qualifying hedge relationship are subsequently measured at FVTPL. Equity instruments within the scope of IFRS 9, if any, are subsequently measured at FVTPL or elected irrevocably to be classified at FVOCI at initial recognition.

Financial liabilities are subsequently measured at amortized cost using the effective interest method or at FVTPL. Financial liabilities are subsequently measured as FVTPL when the financial liability is: (i) contingent consideration of an acquirer in a business combination; (ii) held for trading; or (iii) it is designated as FVTPL if eligible. Other financial liabilities are subsequently measured at amortized cost using the effective interest method.

For financial liabilities that are designated as FVTPL, the amount of change in the fair value of the financial liability that is attributable to changes in our credit risk of that liability is recognized in other comprehensive income (“OCI”) unless the recognition of the effects of changes in the liability’s credit risk in OCI would create or enlarge an accounting mismatch in the consolidated income statements. The remaining amount of change in the fair value of liability is recognized in the consolidated income statements. Changes in fair value of a financial liability attributable to our credit risk that is recognized in OCI are not subsequently reclassified to the consolidated income statements; instead, they are transferred to retained earnings, upon derecognition of the financial liability.

As at January 1, 2018, the measurement category of our financial instruments comparing IAS 39 to IFRS 9 are as follows, with no transitional adjustment required:

| Financial Instrument                                     | IAS 39 Measurement                     | IFRS 9 Measurement            |
|--|--|-------------------------------|
| <b>Cash</b>  | FVTPL                                  | Amortized cost                |
| <b>Accounts receivable</b>                               | Amortized cost (loans and receivables) | Amortized cost                |
| <b>Accounts payable and accrued liabilities</b>          | Amortized cost (other liabilities)     | Amortized cost                |
| <b>Long-term debt</b>                                    | Amortized cost (other liabilities)     | Amortized cost                |
| <b>Derivatives not designated as hedging instruments</b> | FVTPL                                  | FVTPL                         |
| <b>Derivatives designated as hedging instruments</b>     | Fair value (hedge accounting)          | Fair value (hedge accounting) |

### *Impairment*

IFRS 9 requires a forward looking Expected Credit Loss (“ECL”) model as opposed to an incurred credit loss model under IAS 39. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that we expect to receive.

For accounts receivable, we apply the simplified approach and has determined the allowance based on lifetime ECLs at each reporting date. We have established a provision that is based on our historical credit loss experience, adjusted for forward-looking factors specific to the customers and the economic environment. There was no transitional adjustment as a result of adopting the new impairment requirements.

#### *Hedge Accounting*

We applied hedge accounting prospectively. At the date of the initial application, all of our existing hedging relationships were eligible to be treated as continuing hedging relationships. Consistent with prior periods, we have continued to designate the change in fair value of the entire foreign currency forward contracts in our cash flow hedge relationships used to hedge highly probable forecast inventory purchases. If a hedged forecast transaction subsequently results in the recognition of a non-financial asset, we remove that amount from the cash flow hedge reserve and include it directly in the initial cost of the inventory. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in OCI is immediately recognized in the consolidated income statements. The adoption of the hedge accounting requirements of IFRS 9 had no significant impact on our financial statements.

#### **IFRS 15, “Revenue from Contracts with Customers”**

IFRS 15, “Revenue from Contracts with Customers”, establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognizing revenue.

As of January 1, 2018, we have adopted IFRS 15 using the modified retrospective method and we elected to apply the standard retrospectively only to contracts that are not completed contracts at the date of initial application. The adoption of IFRS 15 did not have an impact on the timing of revenue recognition. However, the amount of revenue to be recognized was affected by certain promotional incentives provided to its customers. Previously, under IAS 18,, the value of certain promotional incentives provided to customers was recognized when a liability for the promotion had occurred. IFRS 15 requires that all potential variable consideration be considered and reflected in the transaction price at contract inception and reassessed as Jamieson performs.

The requirements on estimating variable consideration require that such amounts be considered at contract inception even if we have not yet provided or explicitly promised this consideration to the customer. As such, the impact of adopting IFRS 15 on the opening consolidated statement of financial position is as follows:

| <i>As at</i>                             | <b>January 1, 2018</b> |
|--|------------------------|
|  | <b>\$</b>              |
| Accounts payable and accrued liabilities | 6,697                  |
| Deferred income tax                      | (1,775)                |
| Deficit                                  | (4,922)                |

The adoption of IFRS 15 resulted in a reclassification in the presentation of certain consideration paid to customers. Specifically, certain payments for customer-specific programs did not meet the specific criteria within the new guidance of providing a “distinct” good or service, and therefore an amount of \$13.3 million was reclassified from cost of sales to reductions to revenue, with no impact to net income, for the year ended December 31, 2018.

Results for the year ended December 31, 2018 are presented under the new guidance, while prior year results have not been adjusted and continue to be reported in accordance with historical accounting guidance. The following table provides a comparison of the Company’s results under the new guidance, versus if the historical guidance had continued to be applied in the consolidated statements of operations and comprehensive income (loss):

| <i>For the year ended December 31, 2018</i> | <b>As Reported</b> | <b>Under Historical</b> | <b>Effect of Change</b> |
|---|--------------------|-------------------------|-------------------------|
|   | <b>\$</b>          | <b>Guidance</b>         | <b>\$</b>               |
|   |                    | <b>\$</b>               | <b>\$</b>               |
| Revenue                                     | 319,776            | 333,076                 | (13,300)                |
| Cost of Sales                               | 204,358            | 217,658                 | (13,300)                |

The above impacts on the adoption of IFRS 15 related primarily to the Jamieson Brands segment. There is no material impact on the consolidated statements of cash flows.

### Future accounting standards issued but not yet effective

New accounting pronouncements are issued periodically that affect our current and future operations. We intend to adopt these standards when they become effective.

#### **IFRIC Interpretation 23, “Uncertainty over Income Tax Treatment”**

IFRIC Interpretation 23 (the “Interpretation”) addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 and does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.

The Interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances

An entity must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed. The Interpretation is effective for annual reporting periods beginning on or after January 1, 2019, but certain transition reliefs are available.

#### **IAS 19, “Plan Amendment, Curtailment or Settlement (Amendment to IAS 19)”**

IAS 19, “Employee Benefits” (“IAS 19”), specifies how a company accounts for a defined benefit plan. When a plan event (i.e. a plan amendment, curtailment or settlement) occurs, IAS 19 requires a company to update its assumptions and remeasure its net defined benefit liability or asset.

The amendments clarify that after a plan event, a company would use these updated assumptions to measure current service cost and net interest for the remainder of the reporting period after the plan event. The amendments are effective for annual periods beginning on or after January 1, 2019, with early application permitted.

#### **IAS 12, “Income tax consequences of payments on instruments classified as equity (Amendments to IAS 12)”**

IAS 12, “Income Taxes” (“IAS 12”) requires a company to recognize the tax consequences of dividends in profit or loss in some circumstances.

The amendments to IAS 12 clarify that a company accounts for all income tax consequences of dividends in the same way, regardless of how the tax arises, and are effective for annual periods beginning on or after January 1, 2019, with early application permitted.

We are currently evaluating the impact of these three new amendments on our audited consolidated annual financial statements.

#### **IFRS 16, “Leases”**

In January 2016, the IASB issued IFRS 16, “Leases”, which replaces IAS 17, “Leases”, and its associated interpretative guidance. The new standard brings most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. The standard is effective for annual periods beginning on or after January 1, 2019, with early adoption permitted if entities have also applied IFRS 15.

At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

#### *Transition to IFRS 16*

We have adopted the modified retrospective approach as of January 1, 2019 and measure the right-of-use asset at its carrying amount as if IFRS 16 had been applied since the commencement date. We will elect to apply the standard to contracts that were previously identified as leases under IAS 17 and IFRIC 4 and we have performed a completeness check to ensure all leases are included in the analysis. We will elect to use the exemptions proposed by the standard on lease contracts for which the lease terms end within 12 months as of the date of initial application, and lease contracts for which the underlying asset is of low value.

We have completed a preliminary evaluation of IFRS 16, including quantifying the impact of the transitional adjustment of this new standard on the opening consolidated statement of financial position, which is as follows:

| As at                                     | January 1, 2019<br>\$ |
|---|-----------------------|
| Prepaid expenses and other current assets | (259)                 |
| Property, plant and equipment             | 7,434                 |
| Accounts payable and accrued liabilities  | (300)                 |
| Other long-term liabilities               | 7,799                 |
| Deferred income tax                       | (85)                  |
| Deficit                                   | (239)                 |

On the consolidated statements of operations and comprehensive income (loss), depreciation of property, plant and equipment included in cost of sales and selling, general and administrative expenses and interest expense and other financing costs will increase and operating lease expenses included in cost of sales and selling, general and administrative expenses will decrease.

On the consolidated statements of cash flows, cash flows from operating activities will increase due to higher depreciation of property, plant and equipment. Cash flows from financing activities will decrease due to repayment of lease liabilities.

### Disclosure Controls and Procedures

The Chief Executive Officer and the Chief Financial Officer (the “Certifying Officers”), along with other members of management, have designed, or caused to be designed under their supervision, disclosure controls and procedures (“DC&P”) to provide reasonable assurance that (i) material information relating to the Company is made known to them by others, particularly during the period in which the annual filings are being prepared; and (ii) information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation. The Certifying Officers have evaluated, or caused to be evaluated under their supervision, the effectiveness of the Company’s DC&P as at December 31, 2018 and have concluded that the Company’s DC&P was effective as at December 31, 2018.

### Internal Control over Financial Reporting

The Certifying Officers, along with other members of management, have also designed, or caused to be designed under their supervision, internal control over financial reporting (“ICFR”) to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes prepared in accordance with IFRS. The Certifying Officers have used the Internal Control – Integrated Framework (2013 COSO Framework) issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”) to design the Company’s ICFR. The Certifying Officers have evaluated, or caused to be evaluated under their supervision, the effectiveness of the Company’s ICFR as at December 31, 2018 and have concluded that the Company’s ICFR was effective as at December 31, 2018.

There have been no changes in the Company’s ICFR during the three-month period ended December 31, 2018 which have materially affected, or are reasonably likely to materially affect, the Company’s ICFR.

### Limitations of an Internal Control System

We believe that any DC&P or ICFR, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met and that all control issues, including instances of fraud, if any, within the Company have been prevented or detected. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. The design of any system of control is also based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all future conditions.

### Outlook

In fiscal 2019, we expect revenue to grow between 5% and 9% and range between \$336.0 and \$348.0 million. Based on historic revenue accounting, excluding the new revenue recognition accounting impact, our revenue expectation would have been \$350.0 million – \$362.0 million. We anticipate Adjusted EBITDA to range between \$73.0 million and \$76.0 million and Adjusted Diluted Earnings per Share to range between \$0.90 and \$0.95.

Revenue in the Jamieson Brands segment is expected to increase between 5% and 9% driven by growth in the following categories:

- Expected growth within the Jamieson domestic brand of 3% to 5% taking into consideration long-term growth trends within our industry and the potential for distributor and retailer inventory movement
- We expect continued growth above our long-term guidance in international markets as the Company adds more resources and continues to expand into new geographies. Our 2019 estimate for our international growth is between 25% and 35%.
- An expected return to growth within our Specialty Brands group as we return to fundamentals and focus on our customers, consumers and innovation. We estimate growth in Specialty Brands to be between 1% and 5%.

Revenue in the Strategic Partners segment is expected to grow between 5% and 8% due to expanded programs with our existing customers and strong consumer demand for our customer branded products.

We expect to incur certain non-recurring expenses related to international expansion, e-commerce development and termination related costs. The expected Adjusted EBITDA range for fiscal 2019 referred to above reflects the normalization of these expenses and will impact net income. Our Adjusted Net Income and Adjusted Diluted Earnings per Share for fiscal 2019 will also reflect the adding back of these expenses on a tax-effected basis.

Our revenues growth and costs increases will not be linear throughout fiscal 2019. The following factors will impact the period in which we expect to grow in the coming year:

- Jamieson domestic revenue in the first quarter of 2018 included customer accelerated purchases of products ahead of our February 2018 price increase and as such, we expect Jamieson domestic revenue to be close to flat in the first quarter
- We expect Specialty Brands performance to improve through the year. We expect planned growth for our Specialty Brands will be realized in the last six months of the year once our innovation, customer and consumer programs show identifiable results.
- Our strategic partners are launching new programs in the first six months of 2019, which we expect will concentrate Strategic Partners segment revenue growth in the first two quarters

The foregoing financial outlook is based on the following assumptions for fiscal 2019, amongst others:

- the current exchange rate between the U.S. and Canadian dollar whereby U.S.\$1.00 = \$1.33;
- SG&A expenses will grow 11% to 15% to support growth in international markets and our e-commerce initiatives, increased head-office facility costs and higher marketing investment primarily for our Strategic Brands as well as normalization of variable compensation and Specialty Brands commissions compared to the prior year;
- depreciation will increase and includes the impact of accelerated capital additions to expand our capacity and the capitalization of operating leases with the implementation of IFRS 16;
- our stock-based compensation costs are expected to grow to \$3.5 million as these costs normalize over our first four years as a public company;
- interest rates ranging between 4.5% to 5.5% and interest expense of \$9.0 to \$9.5 million based on our borrowing plus our deferred financing fees;
- income tax rates of approximately 28% based on stock compensation remaining non-deductible; and
- a fully diluted share count of approximately 40.0 million shares

Overall, we continue to believe we are on track to meet our 2021 growth targets as disclosed within our IPO Prospectus.

The description of our 2019 financial outlook in this MD&A and our progress toward achieving our 2021 growth targets is based on management's current views and strategies, our assumptions and expectations concerning our growth opportunities and our assessment of the opportunities for our business and the consumer health industry as a whole and the VMS and sports nutrition segments of the consumer health industry in particular, and has been calculated using accounting policies that are generally consistent with our current accounting policies. The description of our 2019 outlook and our progress toward achieving our 2021 growth targets is forward-looking information for purposes of applicable securities laws in Canada and readers are therefore cautioned that actual results may vary from those described above. See "Forward-Looking Information" and "Risk Factors" for a reference to the risks and uncertainties that impact our business and that could cause actual results to vary.

### Current Share and Option Information

As of the date hereof, an aggregate of 38,316,195 Common Shares and no Preference Shares are issued and outstanding. As of the date hereof, the Company had 2,822,167 options, 95,706 PSUs and 27,000 RSUs outstanding.

### **Additional Information**

Additional information relating to our Company, including our most recent quarterly reports and annual information form are available on SEDAR at [www.sedar.com](http://www.sedar.com).

### **Risk Factors**

We are exposed to a variety of financial risks in the normal course of operations including credit risk, market risk and liquidity risk, each of which is discussed below. Management oversees the management of these risks. Our financial instruments and policies for managing these risks are detailed below.

#### **Credit risk**

Credit risk refers to the risk that a counterparty will default on its contractual obligations, resulting in financial loss to us. We are exposed to credit risk from our customers (primarily related to trade accounts receivable) in the normal course of business. We have adopted a policy of only dealing with creditworthy counterparties. To mitigate this risk, we carry out regular credit evaluations and purchase credit insurance for international customers, where appropriate, as a means of mitigating the risk of financial loss from defaults.

We are also exposed to counterparty credit risk inherent in our financing activities, trade receivable insurance and foreign currency derivatives. We have assessed these risks as minimal.

#### **Market Risk**

Market risk is comprised of foreign exchange risk, interest rate risk and commodity price risk.

##### *Foreign Exchange Risk*

Foreign exchange risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Our exposure to the risk of changes in foreign exchange rates relates primarily from transactions in US dollars such as a portion of trade accounts payable, trade accounts receivable and cash. We use foreign exchange forward contracts to manage foreign exchange transaction exposure.

##### *Interest Rate Risk*

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Our exposure to the risk of changes in market interest rates arises from long-term debt obligations issued at fixed rates that create fair value interest rate risk and variable rate borrowings that create cash flow interest rate risk. We manage our interest rate risk by having a balanced portfolio of fixed and variable rate loans and borrowings.

##### *Commodity Price Risk*

We are exposed to price risk related to purchases of certain commodities used as raw materials. We may use fixed price contracts with suppliers to mitigate commodity price risk. Concentration in any one raw material is not significant to us.

#### **Liquidity Risk**

Liquidity risk is the risk we will not be able to meet our financial obligations associated with financial liabilities. We are exposed to this risk mainly in respect of our accounts payable and accrued liabilities, various long-term debt agreements, obligations under our post-retirement benefits plan and operating lease commitments.

We manage our liquidity risk through continuous monitoring of our forecast and actual cash flows and also through the management of our capital structure. We continually revise our available liquid resources as compared to the timing of the payment of liabilities to manage our liquidity risk.



# Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

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## INDEPENDENT AUDITOR'S REPORT

To the Shareholders of  
**Jamieson Wellness Inc.**

### Opinion

We have audited the consolidated financial statements of Jamieson Wellness Inc. and its subsidiaries (the Group), which comprise the consolidated statements of financial position as at December 31, 2018 and 2017, the consolidated statements of operations and comprehensive income (loss), consolidated statements of changes in equity (deficiency) and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2018 and 2017, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

### Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Other information

Management is responsible for the other information. The other information comprises:

- Management's Discussion and Analysis
- The information, other than the consolidated financial statements and our auditor's report thereon, in the Annual Report

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information, and in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

We obtained Management's Discussion & Analysis prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

The Annual Report is expected to be made available to us after the date of the auditor's report. If based on the work we will perform on this other information, we conclude there is a material misstatement of other information, we are required to report that fact to those charged with governance.

### Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

### Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure, and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Paula J. Smith.

Toronto, Canada  
February 26, 2019

*Ernst & Young LLP*

Chartered Professional Accountants,  
Licensed Public Accountants

## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

| In thousands of Canadian dollars as at December 31, | Notes | 2018           | 2017           |
|---|-------|----------------|----------------|
| <b>Assets</b>                                       |       |                |                |
| <b>Current assets</b>                               |       |                |                |
| Cash  |       | 12,445         | 4,833          |
| Accounts receivable                                 | 5     | 82,227         | 71,996         |
| Inventories   | 6     | 72,079         | 59,080         |
| Derivatives   | 20    | 3,124          | —              |
| Prepaid expenses and other current assets           |       | 2,163          | 1,507          |
|   |       | <b>172,038</b> | <b>137,416</b> |
| <b>Non-current assets</b>                           |       |                |                |
| Property, plant and equipment                       | 7     | 50,234         | 45,173         |
| Goodwill  | 8     | 122,975        | 122,975        |
| Intangible assets                                   | 9     | 201,371        | 204,264        |
| Deferred income tax                                 | 14    | 2,403          | 2,727          |
| <b>Total assets</b>                                 |       | <b>549,021</b> | <b>512,555</b> |
| <b>Liabilities</b>                                  |       |                |                |
| <b>Current liabilities</b>                          |       |                |                |
| Accounts payable and accrued liabilities            | 10    | 83,481         | 66,621         |
| Income taxes payable                                | 14    | 4,454          | 4,267          |
| Derivatives   | 20    | —              | 1,081          |
| Current portion of long-term debt                   | 12    | 14,625         | 9,750          |
|   |       | <b>102,560</b> | <b>81,719</b>  |
| <b>Long-term liabilities</b>                        |       |                |                |
| Long-term debt                                      | 12    | 151,287        | 153,459        |
| Post-retirement benefits                            | 13    | 2,923          | 4,856          |
| Deferred income tax                                 | 14    | 51,529         | 51,697         |
| <b>Total liabilities</b>                            |       | <b>308,299</b> | <b>291,731</b> |
| <b>Shareholders' equity</b>                         |       |                |                |
| Share capital                                       | 15    | 239,404        | 234,908        |
| Contributed surplus                                 | 16    | 9,037          | 7,437          |
| Deficit   |       | (10,670)       | (19,486)       |
| Accumulated other comprehensive income (loss)       |       | 2,951          | (2,035)        |
| <b>Total shareholders' equity</b>                   |       | <b>240,722</b> | <b>220,824</b> |
| <b>Total liabilities and shareholders' equity</b>   |       | <b>549,021</b> | <b>512,555</b> |
| <b>Commitments and contingencies</b>                | 21    |                |                |

(see the accompanying notes to the consolidated financial statements)

Approved on behalf of the Board:



Angela Holtham  
Director



David Williams  
Director

## CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)

| In thousands of Canadian dollars, except share and per share amounts,<br>for the years ended December 31, | Notes    | 2018              | 2017            |
|---|----------|-------------------|-----------------|
| Revenue (2018: \$333,076 less reclassification adjustment of \$13,300)                                    | 2, 22    | 319,776           | 300,619         |
| Cost of sales   | 2, 6, 17 | 204,358           | 195,770         |
| Selling, general and administrative expenses  | 17       | 62,261            | 53,589          |
| Share-based compensation  | 16       | 3,067             | 6,325           |
| Earnings from operations  |          | 50,090            | 44,935          |
| Foreign exchange loss   |          | 608               | 331             |
| Termination benefits and related costs  |          | 2,933             | 4,132           |
| Public offering costs   | 1        | —                 | 10,720          |
| Acquisition costs   | 4        | —                 | 2,444           |
| Other expenses  | 10, 18   | 298               | 9,410           |
| Preferred share accretion   | 15       | —                 | 28,796          |
| Interest expense and other financing costs  | 19       | 9,000             | 4,733           |
| Income (loss) before income taxes   |          | 37,251            | (15,631)        |
| Provision for income taxes  | 14       | 10,578            | 8,156           |
| <b>Net income (loss)</b>  |          | <b>26,673</b>     | <b>(23,787)</b> |
| <i>Other comprehensive income (loss)</i>  |          |                   |                 |
| Actuarial gain (loss) not to be reclassified subsequently to net income (loss)                            | 13       | 2,512             | (580)           |
| Income tax  |          | (649)             | 148             |
| Net of tax  |          | <b>1,863</b>      | (432)           |
| Net gain (loss) on cash flow hedges to be reclassified subsequently to net income (loss)                  | 20       | 4,205             | (989)           |
| Income tax  |          | (1,086)           | 262             |
| Net of tax  |          | <b>3,119</b>      | (727)           |
| <b>Total other comprehensive income (loss)</b>  |          | <b>4,982</b>      | <b>(1,159)</b>  |
| <b>Comprehensive income (loss)</b>  |          | <b>31,655</b>     | <b>(24,946)</b> |
| Income (loss) per share attributable to common shareholders   | 24       |                   |                 |
| Basic, income (loss) per share  |          | <b>0.70</b>       | (1.79)          |
| Diluted, income (loss) per share  |          | <b>0.67</b>       | (1.79)          |
| Weighted average number of shares   | 24       |                   |                 |
| Basic   |          | <b>38,009,443</b> | 18,669,758      |
| Diluted   |          | <b>39,531,078</b> | 18,669,758      |

(see the accompanying notes to the consolidated financial statements)

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (DEFICIENCY)

| In thousands of Canadian dollars                           | Notes | Share capital  | Contributed surplus | Deficit          | Accumulated other comprehensive income (loss) | Total Shareholders' equity (deficiency) |
|--|-------|----------------|---------------------|------------------|---|---|
| <b>As at January 1, 2017</b>                               |       | <b>400</b>     | <b>2,598</b>        | <b>(153,724)</b> | <b>(876)</b>                                  | <b>(151,602)</b>                        |
| Net loss for the year                                      |       | —              | —                   | (23,787)         | —   | (23,787)                                |
| Issuance of treasury shares (net)                          | 1     | 232,126        | —                   | —                | —   | 232,126                                 |
| Capitalized transaction cost                               |       | (1,971)        | —                   | —                | —   | (1,971)                                 |
| Taxes realized on transaction costs                        |       | 3,379          | —                   | —                | —   | 3,379                                   |
| Redemption of preferred shares                             | 15    | 800            | —                   | 173,662          | —   | 174,462                                 |
| Exercise of stock options                                  | 16    | 174            | —                   | —                | —   | 174                                     |
| Preferred share dividend                                   | 15    | —              | —                   | (9,605)          | —   | (9,605)                                 |
| Common share dividend (\$0.16 per share)                   |       | —              | —                   | (6,032)          | —   | (6,032)                                 |
| Other comprehensive loss                                   |       | —              | —                   | —                | (1,159)                                       | (1,159)                                 |
| Share-based compensation                                   | 16    | —              | 4,839               | —                | —   | 4,839                                   |
| <b>As at December 31, 2017</b>                             |       | <b>234,908</b> | <b>7,437</b>        | <b>(19,486)</b>  | <b>(2,035)</b>                                | <b>220,824</b>                          |
| Impact of new accounting standards adopted January 1, 2018 | 2     | —              | —                   | (4,922)          | —   | (4,922)                                 |
| Net income for the year                                    |       | —              | —                   | 26,673           | —   | 26,673                                  |
| Issuance of treasury shares                                | 15    | 4,496          | (1,467)             | —                | —   | 3,029                                   |
| Common share dividend (\$0.34 per share)                   |       | —              | —                   | (12,935)         | —   | (12,935)                                |
| Other comprehensive income                                 |       | —              | —                   | —                | 4,982   | 4,982                                   |
| Currency translation adjustment                            |       | —              | —                   | —                | 4   | 4                                       |
| Share-based compensation                                   | 16    | —              | 3,067               | —                | —   | 3,067                                   |
| <b>As at December 31, 2018</b>                             |       | <b>239,404</b> | <b>9,037</b>        | <b>(10,670)</b>  | <b>2,951</b>                                  | <b>240,722</b>                          |

(see the accompanying notes to the consolidated financial statements)

## CONSOLIDATED STATEMENTS OF CASH FLOWS

| In thousands of Canadian dollars, for the years ended December 31,                   | Notes  | 2018            | 2017            |
|--|--------|-----------------|-----------------|
| <b>Cash provided by (used in)</b>  |        |                 |                 |
| <b>Operating activities</b>  |        |                 |                 |
| Net income (loss)  |        | 26,673          | (23,787)        |
| Items not affecting cash   |        |                 |                 |
| Depreciation of property, plant and equipment  | 7      | 5,551           | 5,106           |
| Amortization of intangible assets  | 9      | 3,495           | 3,396           |
| Amortization of fair value adjustments   |        | —               | 1,694           |
| Amortization of deferred financing fees  | 12, 19 | 1,453           | 4,490           |
| Deferred income taxes  |        | 196             | (270)           |
| Accrued interest   | 19     | —               | (8,966)         |
| Share-based compensation   | 16     | 3,067           | 6,325           |
| Former shareholder consideration reclassified as (other income)/compensation expense | 4, 10  | (1,066)         | 8,427           |
| Preferred share accretion  | 15     | —               | 28,796          |
| Others   |        | 906             | 508             |
| Net change in non-cash working capital   |        | (5,170)         | (7,874)         |
| Payment of deferred compensation   | 4      | (7,300)         | —               |
|  |        | <b>27,805</b>   | <b>17,845</b>   |
| <b>Investing activities</b>  |        |                 |                 |
| Acquisition of business  | 4      | —               | (82,500)        |
| Additions to property, plant and equipment, net                                      | 7      | (10,935)        | (4,714)         |
| Acquisition of intangible assets   | 9      | (602)           | (272)           |
|  |        | <b>(11,537)</b> | <b>(87,486)</b> |
| <b>Financing activities</b>  |        |                 |                 |
| Proceeds from credit facilities  | 12     | 37,910          | 241,000         |
| Repayment of credit facilities   | 12     | (36,660)        | (229,248)       |
| Financing charges  | 12     | —               | (5,801)         |
| Issuance of redeemable preferred shares, net   | 15     | —               | 1,341           |
| Issuance of common stock, net of transaction costs                                   | 15     | —               | 230,155         |
| Return of capital and repayment of Note to Finco                                     | 11, 15 | —               | (163,391)       |
| Dividends to Preferred Shareholders  | 15     | —               | (9,605)         |
| Dividends to Common Shareholders   |        | (12,935)        | (6,032)         |
| Exercise of stock options and ESPP   | 15     | 3,029           | 174             |
|  |        | <b>(8,656)</b>  | <b>58,593</b>   |
| <b>Increase (decrease) in cash</b>   |        | <b>7,612</b>    | <b>(11,048)</b> |
| <b>Cash – Beginning of the year</b>  |        | <b>4,833</b>    | <b>15,881</b>   |
| <b>Cash – End of the year</b>  |        | <b>12,445</b>   | <b>4,833</b>    |
| <b>Supplemental disclosure</b>   |        |                 |                 |
| Amount of income taxes paid  |        | 10,206          | 6,187           |
| Amount of interest paid  |        | 6,826           | 11,423          |

(see the accompanying notes to the consolidated financial statements)

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## December 31, 2018 and 2017

### 1. COMPANY OVERVIEW

#### 1.1 Description of the business and consolidated financial statements

Jamieson Wellness Inc. (“Jamieson” or the “Company”) was incorporated on January 24, 2014 as Jamieson Intermediate Holdings Ltd. On January 31, 2014, the Company’s wholly owned subsidiary, Intrepid Acquisition Corporation (“Intrepid”) acquired 100% of the shares of Jamieson Laboratories Ltd. On the same day, Intrepid and Jamieson Laboratories Ltd. amalgamated with the resulting company (“JLL”) carrying on operations under the name Jamieson Laboratories Ltd.

The consolidated financial statements of Jamieson and its subsidiaries for the year ended December 31, 2018 were authorized for issue by the Board of Directors of the Company on February 26, 2019. Jamieson is a company continued under the *Business Corporations Act* (Ontario) and resident in Canada. Jamieson’s registered office is located at 66 Wellington Street West, Suite 5300, TD Bank Tower, Toronto, ON, M5K 1E6.

The Company has manufacturing facilities located in Windsor, Ontario and in Toronto, Ontario and is principally engaged in the manufacturing, development, distribution, sales and marketing of branded and customer branded health products for humans including vitamins, herbal and mineral nutritional supplements.

On July 7, 2017, the Company completed an initial public offering (the “Offering”) of its common shares. The Offering consisted of the public offering of 19,050,000 common shares consisting of a treasury issuance by the Company of 15,554,755 common shares and a secondary offering of 3,495,245 common shares by certain selling shareholders (the “Selling Shareholders”). The offering price of \$15.75 per common share resulted in net proceeds to the Company of \$232,126, and \$52,160 to the Selling Shareholders after underwriting commissions of \$15,752. The over-allotment option was fully exercised after the Offering and resulted in additional net proceeds of \$42,634 after underwriting commissions of \$2,371 for one of the Selling Shareholders.

On October 18, 2017, a secondary offering (the “Secondary Offering”) by certain shareholders of the Company (the “Secondary Offering Shareholders”) of common shares, including the sale by the former majority shareholder of the Company (being entities (collectively, the “CCMP Shareholders”) that CCMP Capital Advisors, LP provided investment advisory services to) of all the common shares held by the CCMP Shareholders, was completed. The Secondary Offering consisted of 14,778,751 common shares (which includes 1,758,751 common shares that were sold by the CCMP Shareholders to the underwriters upon the exercise in full of the over-allotment option). The offering price of \$18.50 per common share resulted in net proceeds to the Secondary Offering Shareholders of \$262,471 after deducting underwriting commissions of \$10,936. The Company did not receive any proceeds from the Secondary Offering.

In addition to the underwriting fees that were paid by the Company, the Selling Shareholders and the Secondary Offering Shareholders (as described above), other expenses net of costs deducted from share capital related to the Offering and Secondary Offering of approximately \$10,513 were incurred and were paid by the Company. The Company’s common shares are listed on the Toronto Stock Exchange (“TSX”) under the stock symbol “JWEL”.

#### 1.2 Subsidiaries

The table below provides a summary of the Company’s subsidiaries. Unless otherwise stated, the subsidiaries as listed below have share capital consisting solely of common shares, which are held directly or indirectly by the Company. JWELL Holdings Inc. (“JWELL”) was created for certain limited purposes in connection with the Reorganization (as defined in Note 15). JWELL was wound up on July 4, 2017 and was formally dissolved on October 22, 2018.

| As at December 31,<br>Entity                  | 2018<br>% | 2017<br>% | Principal Place of<br>Operations | Functional<br>Currency |
|---|-----------|-----------|----------------------------------|------------------------|
| Jamieson Laboratories Ltd.                    | 100       | 100       | Canada                           | Canadian dollar        |
| International Nutrient Technologies Limited   | 100       | 100       | Canada                           | Canadian dollar        |
| JWELL Holdings Inc.                           | —         | 100       | Canada                           | Canadian dollar        |
| Body Plus Nutritional Products Inc.           | 100       | 100       | Canada                           | Canadian dollar        |
| Sonoma Nutraceuticals Inc.                    | 100       | 100       | Canada                           | Canadian dollar        |
| Jamieson Health Products (Shanghai) Co., Ltd. | 100       | —         | China                            | Chinese yuan           |
| Jamieson Health Products Australia Pty Ltd.   | 100       | —         | Australia                        | Australian dollar      |

On January 1, 2019, Sonoma Nutraceuticals Inc. (“Sonoma”) was amalgamated into Body Plus Nutritional Products Inc. (“Body Plus”).



## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 2.1 Basis of preparation and statement of compliance

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (“IFRS”).

The consolidated financial statements have been prepared on a historical cost basis, except for certain derivative financial instruments and liabilities associated with the post-retirement benefit plan that have been measured at fair value. The consolidated financial statements are presented in Canadian dollars and all values are rounded to the nearest thousand (\$000), except share and per share amounts and when otherwise indicated.

### 2.2 Share Split

As a result of the one-to-20.81010939 share split, effected July 5, 2017, all historical period per share data and number of common shares, Class A to V preferred shares (as defined in Note 15) and options outstanding in these consolidated financial statements are presented on a post share split basis.

### 2.3 Basis of consolidation

Control is achieved when the Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Company controls an investee if, and only if, the Company has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect its returns.

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Company has less than a majority of the voting or similar rights of an investee, the Company considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement(s) with the other vote holders of the investee;
- Rights arising from other contractual arrangements; and
- The Company’s voting rights and potential voting rights.

The Company re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Company gains control until the date the Company ceases to control the subsidiary.

Transactions and balances between the Company and its consolidated entities have been eliminated on consolidation.

### 2.4 Summary of significant accounting policies

The following are the significant accounting policies applied by the Company in preparing its consolidated financial statements:

#### 2.4.1 Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at the acquisition date fair value and the amount of any non-controlling interest in the acquiree. Acquisition-related costs are expensed as incurred and included in the consolidated statements of operations and comprehensive income (loss).

When the Company acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. All contingent consideration (except that which is classified as equity) is subsequently re-measured to fair value at each reporting period end, with the changes in fair value recognized in profit or loss. Contingent consideration that is classified as equity is not re-measured, and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost (being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interests) and any previous interest held, over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Company

re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognized at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognized in net income (loss).

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Company's cash-generating units ("CGUs") (or group of CGUs) that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill has been allocated to a CGU (or group of CGUs) and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the CGU retained.

#### 2.4.2 Current versus non-current classification

The Company presents assets and liabilities in the consolidated statements of financial position based on current/non-current classification.

An asset is current when it is:

- Expected to be realized or intended to be sold or consumed in the normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realized within twelve months after the reporting period; or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

A liability is current when:

- It is expected to be settled in the normal operating cycle;
- It is held primarily for the purpose of trading;
- It is due to be settled within twelve months after the reporting period; or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

All other liabilities are classified as non-current.

Deferred income tax assets and liabilities are classified as non-current assets and liabilities.

#### 2.4.3 Fair value measurement

The Company measures financial instruments, such as derivatives, at fair value at each consolidated statements of financial position date. Fair value related disclosures for financial instruments and non-financial assets that are measured at fair value or where fair values are disclosed are summarized in the following notes:

- Accounting policy disclosures (Note 2.4.3)
- Disclosures for valuation methods, significant estimates and assumptions (Notes 3, 8 and 15)
- Quantitative disclosures of fair value measurement hierarchy (Note 20)
- Financial instruments (including those carried at amortized cost) (Notes 12 and 20)

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The fair value of instruments that are quoted in active markets is determined using the quoted prices. The Company uses valuation techniques to establish the fair value of instruments where prices quoted in active markets are not available. Therefore, where possible, parameter inputs to the valuation techniques are based on observable data derived from prices of relevant instruments

traded in an active market. These valuation techniques involve some level of management estimation and judgment, the degree of which will depend on the price transparency for the instrument or market and the instrument's complexity.

The Company categorizes its fair value measurements according to a three-level hierarchy. The hierarchy prioritizes the inputs used by the Company's valuation techniques. A level is assigned to each fair value measurement based on the lowest level input significant to the fair value measurement in its entirety.

The three levels of the fair value hierarchy are defined as follows:

Level 1 – Unadjusted quoted prices at the measurement date for identical assets or liabilities in active markets.

Level 2 – Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3 – Significant unobservable inputs which are supported by little or no market activity.

The fair value hierarchy requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

For assets and liabilities that are recognized in the consolidated financial statements on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by reassessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the Company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

#### **2.4.4 Revenue recognition**

The majority of the Company's revenue is derived from the sale of Jamieson branded products to distributors, retail and wholesale customers, referred to as the Company's "Jamieson Brands" segment, as well as providing contract manufacturing services and the sale of products to strategic partners, referred to as the Company's "Strategic Partners" segment.

Revenue is recognized for the sale of Jamieson branded products and the manufacturing of products to its strategic partners at the point in time when control of the asset is transferred to the customer, either at FOB shipping or FOB destination. The Company generally has a right to payment at the time of delivery (which is the same time that the Company has satisfied its performance obligations under the arrangement), as such a receivable is recognized as the consideration is unconditional and only the passage of time is required before payment is due.

A portion of the Company's revenues derived from contract manufacturing services provided to customers in its Strategic Partners segment is under a tolling arrangement where the customer supplies the Company with a raw material or ingredient. Revenue is recognized net of the cost of the raw material or ingredient supplied by the customer.

Rights of return give rise to variable consideration. The variable consideration is estimated at contract inception using the expected value method as this best predicts the amount of variable consideration to which the Company is entitled. The variable consideration is constrained to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur when any uncertainty is subsequently resolved. For products that are expected to be returned, a refund liability is recognized as a reduction of revenue at the time the control of the products purchased is transferred to the customers.

Jamieson may provide discounts and sales promotional incentives to its customers, which give rise to variable consideration. The variable consideration is constrained to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur when any uncertainty is subsequently resolved. The application of the constraint on variable consideration increases the amount of revenue that will be deferred. Jamieson applies the most likely amount method estimating discounts provided to customers using contracted rates and estimating sales promotional incentives provided to customers based on historical spending patterns. Jamieson may also provide other consideration to customers for customer-specific programs to promote the Company's products. Consequently, revenues are recognized net of these estimated program costs. All other estimated non-customer-specific promotional costs and consideration are expensed as selling, general and administrative expenses.

In subsequent periods, the Company monitors the performance of customers against agreed-upon obligations related to sales incentive programs and makes any adjustments to both revenue and sales incentive accruals as required.

Previously under IAS 18, "Revenue" ("IAS 18"), the Company recognized revenue from product sales at the fair value of the consideration received or receivable, net of estimated returns and an estimate of sales incentives provided to customers excluding taxes or duty. Revenue was recognized when the customer took ownership of the product, title was transferred, all the risks and

rewards of ownership were transferred to the customer, recovery of the consideration was probable, the Company had satisfied its performance obligations under the arrangement, and had no ongoing involvement with the sold product. Revenue was recognized to the extent that it was probable that the economic benefits would flow to the Company and the revenue could be reliably measured, regardless of when the payment was received. A portion of the Company's revenues derived from contract manufacturing services provided to customers in its Strategic Partners Business was under a tolling arrangement where the customer supplied the Company with a raw material or ingredient. Revenue was recognized net of the cost of the raw material or ingredient supplied by the customer.

The value of sales incentives provided to customers was estimated using historical trends and was recognized at the time of sale as a reduction of revenue. Sales incentives included rebate and promotional programs provided to the Company's customers. These rebates were based on achievement of specified volume or growth in volume levels and other agreed promotional activities. In subsequent periods, the Company monitored the performance of customers against agreed-upon obligations related to sales incentive programs and made any adjustments to both revenue and sales incentive accruals as required. A provision for returns and sales provisions was recognized at the time the product was sold and recognized as a reduction to revenue.

#### 2.4.5 Foreign currencies

The Company's consolidated financial statements are presented in Canadian dollars. For each entity, the Company determines the functional currency, and items included in the financial statements of each entity are measured using that functional currency (refer to Note 1.2).

##### Transactions and balances

Transactions in foreign currencies are initially recorded by the entities at their respective functional currency spot rate at the date the transaction first qualifies for recognition.

- Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange in effect at the reporting date.
- Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.
- Revenue and expense items are translated using the average exchange rate during the year.

Differences arising on settlement or translation of monetary items are recognized in profit or loss.

Exchange differences arising on translation for consolidation are recognized in other comprehensive income ("OCI"). On disposal of a foreign operation, the component of OCI relating to that particular foreign operation is reclassified to profit or loss.

#### 2.4.6 Taxes

##### Current income tax

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date in the countries where the Company operates and generates taxable income.

Current income tax relating to items recognized directly in equity is recognized in equity and not in the consolidated statements of operations and comprehensive income (loss). Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation, and it establishes provisions where appropriate.

##### Deferred income tax

Deferred income tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred income taxes are not recognized where:

- The deferred income tax liability arises from the initial recognition of goodwill;
- The deferred income tax asset or liability arises on the initial recognition of an asset or liability in an acquisition that is not a business combination and, at the time of the acquisition, affects neither the accounting profit nor taxable profit or loss; and
- For temporary differences relating to investments in subsidiaries to the extent that the Company can control the timing of the temporary difference and it is probable that they will not reverse in the foreseeable future.

Deferred income tax assets are recognized for unused loss carry forwards and deductible temporary differences to the extent that it is probable that taxable profit will be available against which they can be utilized. At each reporting period, previously unrecognized

deferred income tax assets are reassessed to determine whether it has become probable that future taxable profit will allow the deferred income tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Current and deferred income taxes relating to items recognized directly in OCI or equity are also recognized directly in OCI or equity, respectively.

Tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, are recognized subsequently if new information about facts and circumstances arise. The adjustment is either treated as an adjustment to goodwill (as long as it does not exceed goodwill) if it is incurred during the measurement period or recognized in net income (loss).

#### Sales tax

Revenues, expenses and assets are recognized net of the amount of sales tax, except:

- Where the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case, the sales tax is recognized as part of the cost of acquisition of the asset or as part of the expense item, as applicable; and
- Receivables and payables are stated with the amount of sales tax included. The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the consolidated statements of financial position.

#### **2.4.7 Property, plant and equipment**

Property, plant and equipment, with the exception of land, is recorded at cost less accumulated depreciation and any net accumulated impairment losses. Land is carried at cost and not depreciated. Construction-in-process assets are capitalized during construction and depreciation commences when the asset is available for use. Repair and maintenance costs are recognized in profit or loss as incurred unless the recognition criteria are satisfied and it substantially changes the useful life of an asset.

Depreciation is calculated on a straight-line basis, after taking into account residual values, over the following expected useful lives of the assets:

|                                 |                 |
|---------------------------------|-----------------|
| Land                            | Not depreciated |
| Buildings                       | 20 years        |
| Machinery and equipment         | 3 – 10 years    |
| Furniture and fixtures          | 4 years         |
| Computer equipment and software | 3 years         |
| Tools and dies                  | 1 year          |

When parts of an item of property and equipment have different useful lives, those components are accounted for as components of property and equipment. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated statements of operations and comprehensive income (loss) when the asset is derecognized.

The residual values, useful lives and methods of depreciation of property, plant and equipment are reviewed at each financial year-end and adjusted prospectively, if appropriate.

#### **2.4.8 Intangible assets**

Intangible assets are established as a result of business combinations and measured on initial recognition at fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less accumulated amortization and any accumulated impairment losses.

Upon recognition of an intangible asset, the Company determines if the asset has a definite or indefinite life. In making this determination, the Company considers the expected use, expiry of agreements, the nature of the asset, and whether the value of the asset decreases over time.

Intangible assets with finite lives are amortized over their useful economic lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets is recognized in the consolidated statements of operations and comprehensive income (loss) on a straight-line basis over their estimated useful lives as follows:

|                        |               |
|------------------------|---------------|
| Customer relationships | 25 – 30 years |
| Other                  | 3 – 10 years  |

The Company expects its trade names to generate economic benefit in perpetuity, and accordingly, has assigned the trade names as indefinite-life intangible assets.

Indefinite-life intangibles including trade names are tested for impairment annually at December 31 and otherwise as required if events occur that indicate that the net carrying value may not be recoverable.

#### 2.4.9 Financial instruments – initial recognition and subsequent measurement

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

##### Classification and measurement

All financial assets and liabilities are recognized initially at fair value plus, in the case of financial instruments not at fair value through profit or loss (“FVTPL”), transaction costs.

Debt financial instruments are subsequently measured at FVTPL, fair value through other comprehensive income (“FVOCI”), or amortized cost using the effective interest rate method. The Company determines the classification of its financial assets based on the Company’s business model for managing the financial assets and whether the instruments’ contractual cash flows represent solely payments of principal and interest on the principal amount outstanding. The Company’s derivatives not designated as a hedging instrument in a qualifying hedge relationship are subsequently measured at FVTPL. Equity instruments within the scope of IFRS 9, “Financial Instruments” (“IFRS 9”), if any, are subsequently measured at FVTPL or elected irrevocably to be classified at FVOCI at initial recognition.

Financial liabilities are subsequently measured at amortized cost using the effective interest method or at FVTPL. Financial liabilities are subsequently measured as FVTPL when the financial liability is: (i) contingent consideration of an acquirer in a business combination; (ii) held for trading; or (iii) it is designated as FVTPL if eligible. Other financial liabilities are subsequently measured at amortized cost using the effective interest method.

For financial liabilities that are designated as FVTPL, the amount of change in the fair value of the financial liability that is attributable to changes in the Company’s own credit risk of that liability is recognized in OCI unless the recognition of the effects of changes in the liability’s credit risk in OCI would create or enlarge an accounting mismatch in the consolidated statements of operations and comprehensive income (loss). The remaining amount of change in the fair value of liability is recognized in the consolidated statements of operations and comprehensive income (loss). Changes in fair value of a financial liability attributable to the Company’s own credit risk that are recognized in OCI are not subsequently reclassified to the consolidated statements of operations and comprehensive income (loss); instead, they are transferred to retained earnings, upon derecognition of the financial liability.

The Company has made the following financial instrument classifications:

| Financial Instrument                              | IFRS 9 Measurement            |
|---|-------------------------------|
| Cash  | Amortized cost                |
| Accounts receivable                               | Amortized cost                |
| Accounts payable and accrued liabilities          | Amortized cost                |
| Long-term debt                                    | Amortized cost                |
| Derivatives not designated as hedging instruments | FVTPL                         |
| Derivatives designated as hedging instruments     | Fair value (hedge accounting) |

### Impairment

IFRS 9 requires a forward looking Expected Credit Loss (“ECL”) model. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive.

For accounts receivable, Jamieson applies the simplified approach and has determined the allowance based on lifetime ECLs at each reporting date. The Company has established a provision that is based on the Company’s historical credit loss experience, adjusted for forward-looking factors specific to the customers and the economic environment. There was no transitional adjustment as a result of adopting the new impairment requirements.

### Derecognition

A financial asset is derecognized when the rights to receive cash flows from the asset have expired, or the Company has transferred its rights to receive cash flows from the asset and either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in the consolidated statements of operations and comprehensive income (loss).

#### **2.4.10 Derivative financial instruments and hedge accounting**

The Company uses derivative financial instruments such as foreign exchange forward contracts to hedge its foreign currency risks. Derivative financial instruments are initially recognized at fair value on the date the derivative contract is executed and are subsequently remeasured at fair value each reporting period end.

At the inception of a hedging relationship, the Company designates and formally documents the relationship between the hedging instrument and the hedged item, the risk management objective, and its strategy for undertaking the hedge. The documentation identifies the specific asset, liability, or anticipated cash flows being hedged, the risk that is being hedged, the type of hedging instrument used, and how effectiveness will be assessed.

The Company also formally assesses, both at inception and at each reporting date thereafter, whether or not the derivatives that are used in hedging transactions are highly effective in offsetting the changes attributable to the hedged risks in the fair values or cash flows of the hedged items. If a hedge relationship becomes ineffective, it no longer qualifies for hedge accounting and any subsequent change in the fair value of the hedging instrument is recognized in net income (loss).

The Company uses hedge accounting for highly probable forecasted transactions. When hedge accounting is appropriate, the hedging relationship is designated as a cash flow hedge. In a cash flow hedge, the change in fair value of the hedging instrument is recorded, to the extent it is effective, in other comprehensive income. If a hedged forecast transaction subsequently results in the recognition of a non-financial asset, the Company removes that amount from the cash flow hedge reserve and includes it directly in the initial cost of the inventory.

When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in other comprehensive income is immediately recognized in the consolidated statements of operations and comprehensive income (loss).

#### **2.4.11 Inventories**

Inventories are valued at the lower of cost and net realizable value. Raw material costs are accounted for using purchase cost on a first-in, first-out basis. Finished goods and work in progress costs are accounted for using cost of direct materials and labour and a proportion of manufacturing overheads based on normal operating capacity. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs to sell. A provision for obsolescence is calculated based on historical experience and expiration.

#### **2.4.12 Impairment of non-financial assets**

Disclosures relating to impairment of non-financial assets are summarized in the following notes:

- Accounting policy disclosures (Note 2.4.12)
- Disclosures for significant assumptions (Note 3)
- Property, plant and equipment (Note 7)
- Goodwill and intangible assets (Notes 8 and 9)

The Company performs impairment testing annually for goodwill and indefinite-life intangible assets and, when circumstances indicate that there may be impairment, for other long-lived assets. Management judgment is involved in determining if there are circumstances indicating that testing for impairment is required, and in identifying CGUs for the purpose of impairment testing.

The Company assesses impairment by comparing the recoverable amount of a long-lived asset, CGU or CGU group to its carrying value. The recoverable amount is defined as the higher of: (i) value in use; or (ii) fair value less cost to sell.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples or other available fair value indicators.

The determination of the recoverable amount involves significant estimates and assumptions, including those with respect to valuation multiples, future cash inflows and outflows, discount rates, and asset lives. These estimates and assumptions could affect the Company's future results if the current estimates of future performance and fair values change. These determinations will affect the amount of amortization expense on definite-life intangible assets recognized in future periods.

Where the carrying amount of an asset or CGU (or group of CGUs) exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. Impairment losses, if any, of continuing operations are recognized in the consolidated statements of operations and comprehensive income (loss) in those expense categories consistent with the function of the impaired asset.

A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's or CGU's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset or group of assets does not exceed their recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the assets in prior years. Such reversal is recognized in the consolidated statements of operations and comprehensive income (loss). Impairment losses relating to goodwill cannot be reversed in future periods.

#### **2.4.13 Cash**

Cash in the consolidated statements of financial position comprises cash balances that are subject to an insignificant risk of changes in value.

#### **2.4.14 Provisions**

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, when appropriate, the risks specific to the liability. When discounting is used, the subsequent increase in the provision due to the passage of time is recognized as a finance cost.

#### **2.4.15 Post-retirement benefits**

The Company's post-retirement benefit plan (refer to Note 13) is unfunded and available to all Canadian hourly union personnel. The plan provides prescription and vision benefits to eligible employees upon attainment of age 65 with at least 15 years of service.

Post-retirement benefit costs for the plan are actuarially determined using the projected unit credit method pro-rated on service and management's best estimate of the appropriate discount rate, health care costs, inflation, mortality and other decrements. The accrued benefit obligation is based on the present value of future benefits based on the last actuarial valuation completed as of December 31, 2018.

Current and past years' service costs, interest income or expenses and gains and losses on curtailments are recognized in the consolidated statements of operations and comprehensive income (loss) as they occur and at the date of a plan amendment or curtailment.

Re-measurements, comprising actuarial gains and losses, are recognized immediately in the consolidated statements of financial position with a corresponding debit or credit to OCI in the period in which they occur. Re-measurements are not reclassified to net income (loss) in subsequent periods.



#### 2.4.16 Share-based compensation

The Company has an equity-based compensation plan providing for the issuance of securities under which the grants will be made by the Company. Under the long-term incentive plan (the “LTIP”), the Board of Directors, at its discretion may grant share options, restricted shares, restricted share units in the form of time-based restricted share units (“RSUs”) or performance-based share units (“PSUs”), stock appreciation rights and deferred share units. The awards are settled in common shares of the Company and have no cash settlement alternatives.

Share-based compensation costs are accounted for on a fair value basis, as measured at the grant date, which is generally the date at which both the Company and employee have a mutual understanding of the terms of the award.

The compensation expense is based on the estimated number of awards that will eventually vest and adjustments for forfeitures are made as they occur.

Upon exercise of options and settlement of RSUs and PSUs the amount recognized in contributed surplus for the award plus the cash received upon exercise is recognized as an increase in share capital.

##### Legacy Option Plan

In connection with the Offering, on July 5, 2017 the legacy option plan (the “Legacy Option Plan”) was amended and restated and option exchange agreements were entered into such that, among other things: (i) options issued under the Legacy Option Plan became exercisable for common shares (rather than Class A common shares, which were a part of the authorized share capital of the Company prior to the Reorganization (as described in Note 15)); and (ii) adjustments were made to reflect the share split.

The vesting requirements are service and performance-based and the options have a contractual life of no more than 10 years. Options had an exercise price equal to no less than the market price on the date of grant. The share price on the date of grant was estimated by the Company by calculating the fair value of the Company using a capitalized adjusted EBITDA approach and determining the residual value attributable to common shareholders.

No further awards may be made under the Legacy Option Plan.

##### *Time-based share options under the Legacy Option Plan*

The Company granted time-based share options to directors, officers and employees to purchase common shares of the Company, which vested over four years with the vesting period generally beginning on the date of grant, but in some cases on an earlier date tied to the beginning of the individual’s employment with the Company (vesting 50% on each of the third and fourth anniversary from the beginning of the vesting period).

The resulting share-based compensation cost is recognized based on the graded vested method of accounting with the corresponding credit to contributed surplus over the vesting period, typically four years, which is considered a contribution as the share option plan is settled in shares of the Company.

##### *Performance-based share options under the Legacy Option Plan*

The Company granted performance-based share options to certain employees to purchase common shares of the Company. These options vest based on the achievement of specified targets, which range from two to three times Intrepid’s initial investment in JLL plus a preferred return. The Company has concluded that the specified target represents a market condition, and thus, recognizes the compensation cost over the estimated vesting period irrespective of whether the market condition is satisfied provided that service conditions are satisfied. The corresponding credit is recognized as contributed surplus and is considered a contribution as the share option plan is settled in shares of the Company.

##### *Fair value measurement of share options granted under the Legacy Option Plan*

The fair value of time-based and performance-based options is determined using a binomial option valuation model, which requires the Company to develop a scenario analysis by forecasting several estimated outcomes, including forecasting the consideration the Company may achieve on the sale of the Company and associating a probability to each. Other inputs to the valuation model include discount rate, estimated life and fair value of the Company at the grant date.

##### Long-term incentive plan

In conjunction with the Offering, the Company adopted the LTIP.

Options are granted with an exercise price equal to or greater than their fair value, as determined by the closing price on the TSX immediately preceding the grant date of the shares into which they may be converted. Options granted to directors of the Company fully vest on the one-year anniversary from the grant date or vest at a rate of 25% per year on each anniversary date from the beginning of the vesting period. Options granted to persons other than directors of the Company vest at a rate of 25%

per year on each anniversary date from the beginning of the vesting period. Options expire no later than the 10th anniversary of the beginning of the vesting period or upon termination of employment.

The fair value of the share options is estimated using the Black-Scholes option-pricing model. Several assumptions are used in the underlying calculation of fair values of the Company's share options using the Black-Scholes option-pricing model, including the market value at grant date, expected life of the option, stock-price volatility, forfeiture rates, and risk-free interest rates.

PSUs and RSUs granted represent the right to receive one common share of the Company for each PSU or RSU. PSUs vest on the third anniversary of the grant date if the weighted average price of the shares on the TSX for the 90 day period immediately preceding the third anniversary of the grant date, measured over the three year term of the PSUs, increases 6% or more annually (using a compound annual growth rate) over the weighted average price of the shares on the TSX for the 90 day period immediately preceding the grant date.

The Company has determined that the above specified performance condition represents a market condition. Accordingly, the Company recognizes the compensation cost over the vesting period, irrespective of whether the market condition is satisfied, provided that service conditions are satisfied.

The fair value of PSUs is estimated at grant date using the Monte Carlo simulation. Several assumptions are used in the underlying calculation of fair values of the Company's PSUs, including the market value of a JWEL common share at grant date, expected dividend and stock-price volatility.

The RSUs vest at a rate of 1/3 per year on each anniversary date from the beginning of the vesting period.

The fair value of RSUs is measured at grant date based on the market value of a JWEL common share at grant date.

#### Employee share purchase plan

The Company maintains an Employee Share Purchase Plan ("ESPP") for all eligible employees. Employees can contribute any amount of their eligible earnings subject to an annual cap of 10% of aggregate base salary and commissions to the ESPP. Share purchases occur 14 days following the end of the Company's fiscal quarter (the "Purchase Date"), or the first business day thereafter if any Purchase Date is not a business day. Eligible employees are able to purchase common shares at 90 percent of the volume weighted average closing price on the TSX on the five trading days immediately preceding the Purchase Date.

Employees pay for their stock purchases through payroll deductions at a rate equal to any whole percentage from 1 percent to 10 percent.

Contributions to the ESPP are recorded as share capital at each Purchase Date.

A maximum of 10% of the issued common shares outstanding are reserved for issuance under the LTIP and ESPP plans combined.

#### **2.4.17 Leases**

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is, or contains, a lease if fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement.

A lease is classified at the inception date as a finance lease or an operating lease. A lease that transfers substantially all the risks and rewards incidental to ownership to the Company is classified as a finance lease.

Finance leases are capitalized at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized in finance costs in the consolidated statements of operations and comprehensive income (loss).

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Company will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

The Company does not have any finance lease arrangements.

An operating lease is a lease other than a finance lease. Operating lease payments are recognized as an operating expense in the consolidated statements of operations and comprehensive income (loss) on a straight-line basis over the lease term.

## 2.5 Recently adopted accounting standards

The following accounting policy changes were adopted on January 1, 2018. The Company has also adopted other new standards which were effective from January 1, 2018 that did not have a material impact on the Company's financial statements.

### 2.5.1 IFRS 9, "Financial Instruments"

IFRS 9 replaces the provisions of IAS 39, "Financial Instruments Recognition and Measurement" for annual periods beginning on or after January 1, 2018. IFRS 9 includes the recognition, classification and measurement of financial assets and financial liabilities; a forward looking "expected loss" impairment model; and a substantially-reformed approach to hedge accounting. IFRS 9 also amended IFRS 7, "Financial Instruments: Disclosures", which requires additional disclosures. With the exception of hedge accounting, which the Company applied prospectively, the Company has applied IFRS 9 retrospectively, with the initial application date of January 1, 2018. As permitted by the transitional provisions of IFRS 9, the Company elected not to restate comparative figures or note disclosures. Any adjustments to the carrying amounts of financial assets and liabilities at the transition date are to be recognized in the opening retained earnings of the current period. However, the Company assessed that no adjustments to the carrying amounts of financial assets and liabilities were required upon adoption of IFRS 9.

As at January 1, 2018, the measurement category of the Company's financial instruments comparing IAS 39 to IFRS 9 are as follows, with no transitional adjustment required:

| Financial Instrument                              | IAS 39 Measurement                     | IFRS 9 Measurement            |
|---|--|-------------------------------|
| Cash  | FVTPL                                  | Amortized cost                |
| Accounts receivable                               | Amortized cost (loans and receivables) | Amortized cost                |
| Accounts payable and accrued liabilities          | Amortized cost (other liabilities)     | Amortized cost                |
| Long-term debt                                    | Amortized cost (other liabilities)     | Amortized cost                |
| Derivatives not designated as hedging instruments | FVTPL                                  | FVTPL                         |
| Derivatives designated as hedging instruments     | Fair value (hedge accounting)          | Fair value (hedge accounting) |

Refer to Note 2.4.9 for the Company's accounting policies for financial instruments.

#### *Hedge Accounting*

The Company applied hedge accounting prospectively. At the date of the initial application, all of the Company's existing hedging relationships were eligible to be treated as continuing hedging relationships. Consistent with prior periods, the Company has continued to designate the change in fair value of the entire foreign currency forward contracts in the Company's cash flow hedge relationships used to hedge highly probable forecasted inventory purchases. The adoption of the hedge accounting requirements of IFRS 9 had no significant impact on the Company's financial statements.

### 2.5.2 IFRS 15, "Revenue from Contracts with Customers"

IFRS 15, "Revenue from Contracts with Customers" ("IFRS 15"), establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognizing revenue.

As of January 1, 2018, the Company has adopted IFRS 15 using the modified retrospective method and has elected to apply the standard retrospectively only to contracts that are not completed contracts at the date of initial application. The adoption of IFRS 15 did not have an impact on the timing of revenue recognition. However, the amount of revenue to be recognized was affected by certain promotional incentives provided to its customers. Previously, under IAS 18, the value of certain promotional incentives provided to customers was recognized when a liability for the promotion had occurred. IFRS 15 requires that all potential variable consideration be considered and reflected in the transaction price at contract inception and reassessed as the Company performs. The requirements on estimating variable consideration require that such amounts be considered at contract inception

even if the Company has not yet provided or explicitly promised this consideration to the customer. As such, the impact of adopting IFRS 15 on the opening consolidated statements of financial position is as follows:

| <b>As at</b>                             | <b>January 1, 2018</b> |
|--|------------------------|
|  | <b>\$</b>              |
| Accounts payable and accrued liabilities | 6,697                  |
| Deferred income tax                      | (1,775)                |
| Deficit                                  | (4,922)                |

The adoption of IFRS 15 resulted in a reclassification in the presentation of certain consideration paid to customers. Specifically, certain payments for customer-specific programs did not meet the specific criteria within the new guidance of providing a “distinct” good or service, and therefore an amount of \$13,300 was reclassified from cost of sales to reductions to revenue, with no impact to net income, for the year ended December 31, 2018.

Results for the year ended December 31, 2018 are presented under the new guidance, while prior year results have not been adjusted and continue to be reported in accordance with historical accounting guidance. The following table provides a comparison of the Company’s results under the new guidance, versus if the historical guidance had continued to be applied in the consolidated statements of operations and comprehensive income (loss):

| <b>For the year ended December 31, 2018</b> | <b>As Reported</b> | <b>Under Historical</b> | <b>Effect of Change</b> |
|---|--------------------|-------------------------|-------------------------|
|   | <b>\$</b>          | <b>Guidance</b>         | <b>\$</b>               |
|   |                    | <b>\$</b>               | <b>\$</b>               |
| Revenue                                     | <b>319,776</b>     | 333,076                 | (13,300)                |
| Cost of Sales                               | <b>204,358</b>     | 217,658                 | (13,300)                |

The above impacts on the adoption of IFRS 15 related primarily to the Jamieson Brands segment. There is no material impact on the consolidated statements of cash flows.

As required for the consolidated financial statements, the Company disaggregated revenue recognized from contracts with customers. Refer to Note 23 for the disclosure on disaggregated revenue.

Refer to Note 2.4.4 for the Company’s policy for revenue recognition.

### 3. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Company’s consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

#### Judgments

The Company has identified the following judgments, apart from estimates, that management made in the process of applying the Company’s accounting policies, and that have the most significant effect on the amounts recognized in the consolidated financial statements.

#### Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are described below. The Company based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Company. Such changes are reflected in the assumptions when they occur.

#### *Useful lives of property, plant and equipment and intangible assets with finite useful lives*

The Company employs significant estimates to determine the estimated useful lives of property, plant and equipment and intangible assets with finite useful lives, including assets arising from business combinations, considering industry trends such as technological advancements, past experience, expected use and review of asset lives.

Components of an item of property, plant and equipment may have different useful lives. The Company makes estimates when determining depreciation methods, depreciation rates and asset useful lives, which requires taking into account industry trends and company-specific factors. The Company reviews these decisions at least once each year or when circumstances change. The Company will change depreciation methods, depreciation rates or asset useful lives if they are different from previous estimates.

#### *Long-lived assets valuation*

The Company performs impairment testing annually for goodwill and indefinite-life intangible assets and when circumstances indicate long-lived assets may be impaired. Management judgment is involved in determining if there are circumstances indicating that testing for impairment is required, and in identifying CGUs for the purpose of impairment testing. The Company assesses impairment by comparing the recoverable amount of a long-lived asset, CGU, or CGU group to its carrying value. The recoverable amount is defined as the higher of: (i) value in use; or (ii) fair value less costs of disposal.

The determination of the recoverable amount involves significant estimates and assumptions. Fair value less costs to sell is determined using market multiples. Value in use is determined using future cash inflows and outflows, discount rates, growth rates and asset lives. These estimates and assumptions could affect the Company's future results if the current estimates of future performance and fair values change. These determinations will affect the amount of amortization expense on definite-life intangible assets recognized in future periods.

#### *Valuation of inventory*

Management makes estimates of the future customer demand for products when establishing appropriate provisions for inventory. In making these estimates, management considers the product life of inventory and the profitability of recent sales of inventory. In many cases, products sold by the Company turn quickly and inventory on-hand values are low, thus reducing the risk of inventory obsolescence. However, code or "best before" dates are very important in the determination of realizable value of inventory. Management ensures that systems are in place to highlight and properly value inventory that may be approaching code dates. To the extent that actual losses on inventory differ from those estimated, inventory, net income (loss), and comprehensive income (loss) will be affected in future periods.

#### *Estimating variable consideration for returns, trade merchandise allowances and sales promotional incentives*

The Company uses historical customer return data to determine the expected return percentages. These percentages are applied to determine the expected value of the variable consideration. Any significant changes in experience as compared to historical return pattern will impact the expected return percentages estimated by the Company.

The Company provides for estimated payments to customers based on various trade programs and sales promotional incentives. The Company estimates the most likely amount payable to each customer for each trade and incentive program separately using (i) the projected level of sales volume for the relevant period; (ii) customer rates for allowances, discounts, and rebates; (iii) historical spending patterns; and (iv) sales lead time. These arrangements are complex and there are a significant number of customers and products affected. Management has systems and processes in place to estimate and value these obligations.

The Company updates its expected return, trade merchandise allowances and sales promotional incentives on a quarterly basis and the refund liability and trade and promotional accruals are adjusted accordingly. To the extent that payments differ from estimates of the related liability, accounts payable and accrued liabilities, net income (loss), and comprehensive income (loss) will be affected in future periods.

#### *Employee benefit plans*

The cost of post-employment medical benefits and the present value of the benefit obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, mortality rates and future benefit cost increases. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

The parameter most subject to change is the discount rate. In determining the appropriate discount rate, management considers the interest rates of high quality corporate bonds and extrapolates as needed along the yield curve to correspond with the expected term of the defined benefit obligation. The underlying bonds are further reviewed for quality. Those having excessive

credit spreads are removed from the analysis of bonds on which the discount rate is based, on the basis that they do not represent high quality bonds.

The mortality rate is based on publicly available mortality tables. Those mortality tables tend to change only at intervals in response to demographic changes. Inflation and health care costs are based on expected trend rates for the respective segment.

Further details about the Company's post-retirement benefit obligations are provided in Note 13.

#### *Measurement of fair values*

A number of the Company's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities. When the measurement of fair values cannot be determined based on quoted prices in active markets, fair value is measured using valuation techniques and models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. Changes in assumptions about the inputs to these models could affect the reported fair value of the Company's financial and non-financial assets and liabilities.

Tangible and intangible assets acquired through business combinations are initially recorded at their fair values based on assumptions of management. These assumptions include estimating the cost of tangible assets and future expected cash flows arising from intangible assets identified. Financial instruments acquired are determined based on the amortized costs at the acquisition date that approximate their carrying values.

To the extent that these estimates differ from those realized, the measured asset or liability, net income (loss), and/or comprehensive income (loss) will be affected in future periods. Information about the valuation techniques and inputs used in determining the fair value of various assets and liabilities are disclosed in Notes 8, 13, 15, 16 and 20.

#### *Taxes*

The calculation of current and deferred income taxes requires the Company to make estimates and assumptions and to exercise judgment regarding the carrying values of assets and liabilities that are subject to accounting estimates inherent in those balances, the interpretation of income tax legislation across various jurisdictions, expectations about future operating results, the timing of reversal of temporary differences and possible audits of income tax filings by the tax authorities.

Changes or differences in underlying estimates or assumptions may result in changes to the current or deferred income tax balances on the consolidated statements of financial position, a charge or credit to income tax expense in the consolidated statements of operations and comprehensive income (loss) and may result in cash payments or receipts.

All income, capital and commodity tax filings are subject to audits and reassessments. Changes in interpretations or judgments may result in a change in the Company's income, capital or commodity tax provisions in the future. The amount of such a change cannot be reasonably estimated.

## **4. BUSINESS COMBINATIONS**

On January 31, 2017, JLL acquired 100% of the outstanding shares of Body Plus and Sonoma, and, as a result, Body Plus and Sonoma became wholly owned subsidiaries of JLL.

Consideration for the acquisition totalled \$82,500 (net of cash acquired), plus acquisition costs of \$3,233, which were recognized in the consolidated statements of operations and comprehensive income (loss) of the Company for the year ended December 31, 2017, except for approximately \$789 of the acquisition costs, which the Company recognized during the year ended December 31, 2016. The purchase price was funded with cash. An additional \$1,863 was to be paid as a retention bonus (the "Retention Bonus") to key employees of Body Plus and Sonoma, subject to these individuals remaining employed for 12 and/or 18 months following the closing of the acquisition. Pursuant to the purchase agreement, the former owner was entitled to a \$7,500 payment (the "Holdback Amount") subject to a consulting agreement entered into between JLL and the former owner, if the consulting relationship continued for 12 months following the closing of the acquisition. In accordance with IFRS 3 "Business Combinations," the deferred compensation of \$9,363 comprised of the Holdback Amount and the Retention Bonus has been accounted for as deferred compensation.

On January 31, 2018, the Company paid the former owner a reduced Holdback Amount of \$5,500 (representing a \$2,000 reduction) in exchange for the Company to release the remaining balance held in escrow to the former owner in relation to the general and tax indemnities and releasing the former owner from the Company's post-closing indemnification rights under the purchase agreement. In addition, the Company paid \$1,800 of Retention Bonus for total payments of deferred compensation of \$7,300 to settle the liability. No further payments are expected.

For the year ended December 31, 2018, the Company has recognized a net gain of \$1,066 of deferred consideration (2017 – an expense of \$8,427) in the other expenses line in the consolidated statements of operations and comprehensive income (loss).

Body Plus markets, develops and distributes premium quality sports nutrition products under the Progressive, Precision and Iron Vegan brands. Sonoma manufactures, develops and distributes sports nutrition products, supplements and also provides contract manufacturing services.

The following table provides the value of the net assets acquired at their fair value amounts:

|   | <b>Body Plus and<br/>Sonoma<br/>\$</b> |
|---|--|
| Accounts receivable                       | 5,442                                  |
| Inventories                               | 13,736                                 |
| Prepaid expenses and other current assets | 292                                    |
| Accounts payable and accrued liabilities  | (2,879)                                |
| Property, plant and equipment             | 1,672                                  |
| Goodwill                                  | 28,322                                 |
| Intangible assets                         | 49,500                                 |
| Income taxes payable                      | (7)                                    |
| Deferred income tax liability             | (13,578)                               |
| <b>Total net assets acquired</b>          | <b>82,500</b>                          |

The determination of the fair value of assets acquired and liabilities assumed has been based upon management's estimates and certain assumptions with respect to the fair values of the net assets acquired and liabilities assumed except for deferred taxes, which are based on the full amount required under IAS 12, "Income Taxes" ("IAS 12").

The fair value of intangible assets acquired comprises \$44,800 of trade names and \$4,700 of customer relationships.

The goodwill represents the future economic benefit arising from other assets acquired in the acquisition that are not individually identifiable and separately recognized. The goodwill arising from the acquisition of \$28,322 is attributable to expected future income and cash-flow projections and synergies the Company expects to achieve in combining the acquisition into its operations. Goodwill is allocated between the fair value of the assembled workforce and the residual value.

For the year ended December 31, 2017, revenues of \$44,239 and net income of \$4,607 from the operations of Body Plus and Sonoma have been included in the consolidated statements of operations and comprehensive income (loss). Had the acquisition occurred at the beginning of the annual reporting period ended December 31, 2017, the revenue and net loss for the Company on a consolidated basis would have been \$304,091 and \$23,480, respectively.

## 5. ACCOUNTS RECEIVABLE

| As at December 31,              | <b>2018<br/>\$</b> | <b>2017<br/>\$</b> |
|---------------------------------|--------------------|--------------------|
| Trade                           | <b>81,783</b>      | 71,974             |
| Other miscellaneous receivables | <b>517</b>         | 172                |
| Allowance for doubtful accounts | <b>(73)</b>        | (150)              |
|                                 | <b>82,227</b>      | 71,996             |

The Company maintains an allowance for doubtful accounts that represents its estimate of uncollectible amounts based on the Company's historical credit loss experience, adjusted for forward-looking factors specific to the customers and the economic environment.

The aging of receivables is as follows:

| As at December 31,              | 2018<br>\$    | 2017<br>\$ |
|---------------------------------|---------------|------------|
| Current                         | 62,088        | 52,323     |
| Aged 1 – 30 days past due       | 17,789        | 17,079     |
| Aged 31 – 60 days past due      | 1,827         | 2,247      |
| Aged > 60 days past due         | 596           | 497        |
| Allowance for doubtful accounts | (73)          | (150)      |
|                                 | <b>82,227</b> | 71,996     |

## 6. INVENTORIES

| As at December 31,                   | 2018<br>\$     | 2017<br>\$ |
|--------------------------------------|----------------|------------|
| Raw material and packaging           | 32,410         | 25,878     |
| Bulk product and work in process     | 9,029          | 7,957      |
| Packaged finished goods              | 33,709         | 27,760     |
| Inventory provision                  | (3,069)        | (2,515)    |
|                                      | <b>72,079</b>  | 59,080     |
| Inventories expensed during the year | <b>189,530</b> | 161,691    |

An inventory provision is estimated by management based on historical sales, inventory aging and expiry, point of sales information and expected future sales and is included in cost of sales. Subsequent changes to the provision are recorded in cost of sales in the consolidated statements of operations and comprehensive income (loss).

For the year ended December 31, 2018, inventory write-downs of \$1,919 were expensed through cost of sales (2017 – \$1,263).



## 7. PROPERTY, PLANT AND EQUIPMENT

|                                 | Land<br>\$   | Buildings<br>\$ | Machinery and<br>equipment<br>\$ | Other<br>\$  | Total<br>\$   |
|---------------------------------|--------------|-----------------|----------------------------------|--------------|---------------|
| <b>Cost</b>                     |              |                 |                                  |              |               |
| <b>At January 1, 2017</b>       | 2,497        | 23,342          | 27,167                           | 2,865        | 55,871        |
| Acquisitions (Note 4)           | —            | —               | 1,097                            | 575          | 1,672         |
| Additions                       | —            | 312             | 3,102                            | 1,300        | 4,714         |
| Disposals                       | —            | (5)             | (27)                             | (3)          | (35)          |
| <b>At December 31, 2017</b>     | 2,497        | 23,649          | 31,339                           | 4,737        | 62,222        |
| Additions                       | —            | 154             | 8,870                            | 2,081        | 11,105        |
| Disposals                       | —            | —               | (308)                            | (562)        | (870)         |
| <b>At December 31, 2018</b>     | <b>2,497</b> | <b>23,803</b>   | <b>39,901</b>                    | <b>6,256</b> | <b>72,457</b> |
| <b>Accumulated Depreciation</b> |              |                 |                                  |              |               |
| <b>At January 1, 2017</b>       | —            | 3,248           | 7,621                            | 1,101        | 11,970        |
| Depreciation for the year       | —            | 1,172           | 3,127                            | 807          | 5,106         |
| Disposals                       | —            | (1)             | (24)                             | (2)          | (27)          |
| <b>At December 31, 2017</b>     | —            | 4,419           | 10,724                           | 1,906        | 17,049        |
| Depreciation for the year       | —            | 1,177           | 3,428                            | 946          | 5,551         |
| Disposals                       | —            | —               | (138)                            | (239)        | (377)         |
| <b>At December 31, 2018</b>     | <b>—</b>     | <b>5,596</b>    | <b>14,014</b>                    | <b>2,613</b> | <b>22,223</b> |
| <b>Net book value</b>           |              |                 |                                  |              |               |
| <b>At December 31, 2018</b>     | <b>2,497</b> | <b>18,207</b>   | <b>25,887</b>                    | <b>3,643</b> | <b>50,234</b> |
| At December 31, 2017            | 2,497        | 19,230          | 20,615                           | 2,831        | 45,173        |

There are no fixed assets under finance leases included in the amounts noted above. Other comprises furniture and fixtures, computer equipment, and leasehold improvements.

## 8. GOODWILL

Of the goodwill acquired through the business combinations, \$94,287 is allocated to the domestic and international sales CGU and \$28,688 is allocated to the Specialty Brands sales CGU (as defined in Note 23) for the purpose of impairment testing, which are expected to benefit from the synergies of the business combination in which the goodwill arose. The two CGUs comprise the Jamieson Brands segment.

The carrying amount of goodwill for the years ended December 31, 2018 and 2017 is as follows:

|                                | 2018<br>\$ | 2017<br>\$ |
|--------------------------------|------------|------------|
| Balance, beginning of the year | 122,975    | 94,653     |
| Acquisitions (Note 4)          | —          | 28,322     |
| Balance, end of year           | 122,975    | 122,975    |

The estimated recoverable amount was determined by the Company as the fair value less costs of disposal of the CGU by using the capitalized adjusted EBITDA approach, based on a 11.5x multiple (2017 – 10.5x), whereby the Company referenced comparable companies in determining adjusted EBITDA multiples. Comparable companies were determined by reference to size and operation in similar industries.

The impairment analysis is not sensitive to reasonable possible changes to the multiple.

There have been no impairment losses recognized against goodwill during the years ended December 31, 2018 and 2017.

## 9. INTANGIBLE ASSETS

|                                  | Customer<br>relationships<br>\$ | Trademarks<br>\$ | Other      | Total<br>\$    |
|----------------------------------|---------------------------------|------------------|------------|----------------|
| <b>Cost</b>                      |                                 |                  |            |                |
| At January 1, 2017               | 96,885                          | 70,324           | —          | 167,209        |
| Acquisitions (Note 4)            | 4,700                           | 44,800           | —          | 49,500         |
| Additions                        | —                               | —                | 272        | 272            |
| At December 31, 2017             | 101,585                         | 115,124          | 272        | 216,981        |
| Additions                        | —                               | —                | 602        | 602            |
| <b>At December 31, 2018</b>      | <b>101,585</b>                  | <b>115,124</b>   | <b>874</b> | <b>217,583</b> |
| <b>Accumulated amortization</b>  |                                 |                  |            |                |
| At January 1, 2017               | 9,321                           | —                | —          | 9,321          |
| Amortization charge for the year | 3,373                           | —                | 23         | 3,396          |
| At December 31, 2017             | 12,694                          | —                | 23         | 12,717         |
| Amortization charge for the year | 3,397                           | —                | 98         | 3,495          |
| <b>At December 31, 2018</b>      | <b>16,091</b>                   | <b>—</b>         | <b>121</b> | <b>16,212</b>  |
| <b>Net book value</b>            |                                 |                  |            |                |
| <b>At December 31, 2018</b>      | <b>85,494</b>                   | <b>115,124</b>   | <b>753</b> | <b>201,371</b> |
| At December 31, 2017             | 88,891                          | 115,124          | 249        | 204,264        |

The remaining amortization period of customer relationships is 23-26 years. Amortization is recorded in cost of sales on the consolidated statements of operations and comprehensive income (loss).

The carrying amount of indefinite-life intangible assets comprises trademarks, of which \$68,000 is allocated to the domestic and international sales CGU and \$47,124 is allocated to the Specialty Brands sales CGU (as defined in Note 23).

Other comprises patents, registrations, definite-life trademarks, and business development costs.

Refer to note 8 for the Company's determination of the recoverable amount.

There have been no impairments losses recognized against intangible assets during the years ended December 31, 2018 and 2017.

## 10. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

| As at December 31,                     | 2018<br>\$    | 2017<br>\$    |
|--|---------------|---------------|
| Trade payables and accrued liabilities | 44,481        | 28,908        |
| Trade and promotional accruals         | 28,336        | 17,059        |
| Refund liabilities                     | 4,403         | 4,812         |
| Salaries, commissions and bonuses      | 5,391         | 5,339         |
| Deferred compensation                  | —             | 8,427         |
| Termination benefits                   | 802           | 1,992         |
| Accrued interest – current             | 68            | 84            |
|  | <b>83,481</b> | <b>66,621</b> |

### Deferred compensation

In conjunction with the acquisition of Body Plus and Sonoma, the Company recognized a net gain of \$1,066 (2017 – an expense of \$8,427) recorded in other expenses on the consolidated statements of operations and comprehensive income (loss), of which \$nil (2017 – \$8,427) of deferred compensation is recorded in accrued liabilities on the consolidated statements of financial position (refer to Note 4).

On May 25, 2017, preferred shares issued as deferred compensation to Lorna Vanderhaeghe Health Solutions Inc. (“LVHS”) were vested under an accelerated vesting agreement, pursuant to which 25,668 shares were vested. The Company recognized share-based compensation expense for the year ended December 31, 2018 of \$nil (2017 – \$1,486) for these shares.

The asset purchase agreement had provided the former owner the right to redeem the shares for cash, once vested. The Company had classified this instrument as a financial liability that was re-measured to fair value at each reporting year-end. Subsequent to vesting, the deferred compensation had been reclassified to redeemable preferred shares on the consolidated statements of financial position and subsequently redeemed as part of the pre-closing capital changes (refer to Note 15 for details).

## 11. RELATED PARTY TRANSACTIONS

Balances and transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note.

### Due to Jamieson Finco LP (“Finco”)

On January 30, 2014, Finco subscribed for 3,121,516 common shares, on a post share split basis, in the capital of the Company for proceeds of \$83,501. On February 1, 2014, the Company repurchased the common shares it issued to Finco on January 30, 2014 in exchange for a note in the amount of \$83,501. The proceeds of the subscription were used by the Company to fund a portion of its acquisition of JLL. The term of the note was seven years and bore an interest rate of 9.75%.

On June 28, 2017, Finco forgave \$12,958 of accrued interest, reducing the principal and accrued interest in respect of the note to \$98,289 (\$83,501 principal and \$14,788 accrued interest). Through a series of transactions, the principal and accrued interest was settled on a net basis in exchange for 94,592,252.49 Class W preferred shares of the Company (refer to Note 15) and the Company agreeing to remit \$3,697 of tax payable on behalf of Finco (the “Finco Tax Payable”).

The following table provides a reconciliation of the change in financing liabilities with respect to the note:

|  | Note to Finco<br>\$ |
|--|---------------------|
| As at January 1, 2017                          | 107,255             |
| Accrued interest                               | 3,992               |
| Interest forgiveness                           | (12,958)            |
| Finco tax payable                              | (3,697)             |
| Issuance of Class W preferred shares (Note 15) | (94,592)            |
| As at December 31, 2017                        | —                   |

The balance of the note as at December 31, 2018 is \$nil (December 31, 2017 – \$nil) including accrued interest of \$nil (2017 – \$nil).

#### Share-based compensation

The Company offers its employees a share-based compensation plan. Please refer to Note 16 for details of the share-based compensation awards.

#### Compensation of key management personnel of the Company

Key management personnel are those persons having authority and responsibility for planning, directing, and controlling the activities of the Company and/or its subsidiaries, directly or indirectly, including any non-executive director of the Company.

Remuneration of key management personnel including C-suite executives of the Company comprises the following expenses:

| For the years ended December 31,         | 2018<br>\$ | 2017<br>\$ |
|--|------------|------------|
| Short-term employee benefits             | 3,260      | 4,966      |
| Termination and post-employment benefits | —          | 282        |
| Share-based compensation                 | 1,935      | 1,427      |
| Total remuneration                       | 5,195      | 6,675      |

The amounts disclosed in the table are the amounts recognized as an expense during the reporting period related to key management personnel.

## 12. LONG-TERM DEBT

| As at December 31,        | 2018<br>\$ | 2017<br>\$ |
|---------------------------|------------|------------|
| Revolving credit facility | 41,000     | 30,000     |
| Term credit facility      | 127,938    | 137,688    |
| Deferred financing fees   | (3,026)    | (4,479)    |
|                           | 165,912    | 163,209    |
| Less: Current portion     | (14,625)   | (9,750)    |
|                           | 151,287    | 153,459    |

The following table provides a reconciliation of the change in financing liabilities with respect to the Credit Facilities (as hereinafter defined):

|   | 2018<br>\$ | 2017<br>\$ |
|---|------------|------------|
| As at January 1                         | 163,209    | 152,777    |
| Net drawing from credit facilities      | 1,250      | 11,752     |
| Capitalized financing costs             | —          | (5,801)    |
| Amortization of deferred financing fees | 1,453      | 4,490      |
| Other                                   | —          | (9)        |
| As at December 31                       | 165,912    | 163,209    |

On January 31, 2017, JLL entered into a credit agreement (the “Credit Agreement”) with a syndicate of lenders. The Credit Agreement provided a secured term credit facility of \$195,000 (with the option to increase the facility up to \$255,000) and a secured revolving credit facility of \$75,000 (including a \$10,000 swingline facility) (collectively, the “Credit Facilities”). The Credit Facilities mature on January 31, 2021 with the outstanding principal repayable in full on this date. Financing costs of \$4,265 and \$1,536 were incurred as part of the issuance of the term credit facility and revolving credit facility, respectively.

As at December 31, 2018, the weighted average interest rate on this facility was 4.3% (2017 – 4.5%).

For the year ended December 31, 2018, JLL made drawings of \$nil (2017 – \$195,000) and debt repayments of \$9,750 (2017 – \$57,312) applied against the term credit facility.

For the year ended December 31, 2018, JLL made drawings of \$37,910 (2017 – \$46,000) and debt repayments of \$26,910 (2017 – \$16,000) applied against the revolving credit facility.

As at December 31, 2018, the Company had an outstanding letter of credit (“LC”) for \$nil (2017 – \$1,060). Any outstanding LC reduces the available borrowing against the revolving credit facility by the LC amount.

The Credit Facilities are secured by a general security agreement and first charge over the assets including property, plant and equipment of JLL and its subsidiaries, subject to permitted liens.

Under the terms of the Credit Facilities, JLL is subject to restrictive covenants and must maintain an interest coverage ratio of not less than 3.00:1.00 and a leverage ratio not greater than 4.05:1.00. JLL is in compliance with all covenants as at the date of these consolidated financial statements.

On January 31, 2017, JLL extinguished its credit facilities with CPPIB Credit Investments Inc. (“CPPIB”) and Wells Fargo Capital Finance Corporation (“Wells Fargo”) and made a debt repayment of \$155,936. JLL expensed the remaining unamortized deferred financing fees of \$2,340 related to the CPPIB credit facility and \$819 related to the Wells Fargo credit facility.

### 13. POST-RETIREMENT BENEFITS

The Company maintains an unfunded post-retirement benefit plan that provides health and vision care coverage to retirees at age 65 with 15 or more years of service. The Company uses actuarial reports prepared by independent actuaries to measure its accrued obligation for funding and accounting purposes.

Changes in the present value of the post-retirement benefit plan are as follows:

|                                | 2018<br>\$ | 2017<br>\$ |
|--------------------------------|------------|------------|
| As at December 31,             |            |            |
| Balance, beginning of the year | 4,856      | 3,797      |
| Benefits paid                  | (13)       | (21)       |
| Actuarial (gain)/loss          | (2,512)    | 580        |
| Interest costs                 | 170        | 152        |
| Current service costs          | 422        | 348        |
| Balance, end of the year       | 2,923      | 4,856      |

The following significant economic assumptions were employed to determine the accrued benefit obligation:

| As at December 31,                         | 2018<br>%   | 2017<br>%   |
|--|-------------|-------------|
| Benefit obligations                        |             |             |
| Discount rate – expense for the year       | 3.50        | 4.00        |
| Discount rate – year-end obligation        | 4.00        | 3.50        |
| Health care cost inflation                 | —           | 5.00 – 6.00 |
| Dental care cost inflation                 | —           | 4.50        |
| Drug cost inflation – expense for the year | 5.00 – 5.50 | —           |
| Drug cost inflation – year-end obligation  | 4.50 – 5.50 | —           |

Impact of an increase/decrease in the health care trend of 1%:

| As at December 31, | Accrued benefit obligation |              | Service cost |             | Interest cost |             |
|--------------------|----------------------------|--------------|--------------|-------------|---------------|-------------|
|                    | 1% Increase                | 1% Decrease  | 1% Increase  | 1% Decrease | 1% Increase   | 1% Decrease |
| <b>2018</b>        | <b>771</b>                 | <b>(574)</b> | <b>77</b>    | <b>(55)</b> | <b>31</b>     | <b>23</b>   |
| 2017               | 1,339                      | (938)        | 143          | (98)        | 47            | (33)        |

The sensitivity analyses above have been determined based on a method that extrapolates the impact on the post-retirement benefit obligation as a result of reasonable changes in key assumptions occurring at the end of the reporting period. The sensitivity analyses are based on a change in a significant assumption, keeping all other assumptions constant. The sensitivity analysis may not be representative of an actual change in the post-retirement benefit obligation as it is unlikely that changes in assumptions would occur in isolation of one another. The same method has been applied for the sensitivity analysis as used to calculate the recognized post-retirement liability.

The following payments are expected contributions to the post-retirement benefit plan in future years:

| As at December 31,      | 2018<br>\$ | 2017<br>\$ |
|-------------------------|------------|------------|
| Within one year         | 19         | 24         |
| Between 2 and 5 years   | 139        | 165        |
| Between 5 and 10 years  | 407        | 525        |
| Total expected payments | 565        | 714        |

## 14. INCOME TAXES

The major components of income tax expense for the years ended December 31:

| Years ended December 31,               | 2018<br>\$ | 2017<br>\$ |
|--|------------|------------|
| Current income tax expense             | 10,380     | 9,119      |
| Deferred income tax expense (recovery) | 198        | (963)      |
| Provision for income taxes             | 10,578     | 8,156      |

#### Reconciliation of effective tax rate

Income tax expense (recovery) varies from the amount that would be computed by applying the combined federal and provincial statutory income tax rates as a result of the following:

| As at December 31,   | 2018<br>\$    | 2017<br>\$   |
|--|---------------|--------------|
| Income tax expense (recovery) at combined statutory rate of 25.9% (2017 – 26.5%) | 9,628         | (4,141)      |
| Non-deductible expenses  | 143           | 109          |
| Share-based compensation   | 794           | 1,622        |
| Deferred compensation  | (305)         | 1,842        |
| Non-deductible acquisition costs   | —             | 980          |
| Other and deductible temporary differences not benefited                         | 318           | 7,744        |
|  | <b>10,578</b> | <b>8,156</b> |

#### Income tax recognized in other comprehensive income (loss)

| As at December 31,           | 2018<br>\$     | 2017<br>\$ |
|------------------------------|----------------|------------|
| Derivative instruments       | (1,086)        | 262        |
| Post-retirement benefit plan | (649)          | 148        |
|                              | <b>(1,735)</b> | <b>410</b> |

#### Deferred income tax assets and liabilities

Deferred income tax assets and liabilities arise on the timing differences between accounting and tax treatment of goodwill and intangible assets, property plant and equipment, post-retirement employee benefit obligations, deferred financing fees, and non-capital losses carried forward.

Deferred income tax assets and liabilities comprise the following:

| As at December 31,                                      | 2018<br>\$      | 2017<br>\$      |
|---|-----------------|-----------------|
| Non-capital losses carried forward                      | 367             | —               |
| Deferred financing fees                                 | 3,057           | 4,585           |
| Post retirement   | 756             | 1,249           |
| Property, plant and equipment                           | (5,483)         | (6,052)         |
| Goodwill and intangible assets                          | (48,903)        | (49,353)        |
| Other   | 1,080           | 601             |
| Total deferred income tax liabilities                   | <b>(49,126)</b> | <b>(48,970)</b> |
| Classified in the consolidated financial statements as: |                 |                 |
| Deferred income tax assets                              | 2,403           | 2,727           |
| Deferred income tax liabilities                         | <b>(51,529)</b> | <b>(51,697)</b> |
| Net deferred income tax liabilities                     | <b>(49,126)</b> | <b>(48,970)</b> |

The Company has Canadian based non-capital loss carry forwards as at December 31, 2018 of \$1,388 (2017 – \$nil) on a pre-tax basis. The non-capital loss expires in 2038.

## 15. SHARE CAPITAL AND REDEEMABLE PREFERRED SHARES

The following tables reflect the impact of the share split as it was retrospectively applied to all periods presented.

|                                | Common Shares     |                |
|--------------------------------|-------------------|----------------|
|                                | #                 | \$             |
| As at December 31, 2017        | 37,740,121        | 234,908        |
| Exercise of stock options      | 448,943           | 4,102          |
| Employee stock purchase plan   | 18,050            | 394            |
| <b>As at December 31, 2018</b> | <b>38,207,114</b> | <b>239,404</b> |

|   | Common Shares     |                |
|---|-------------------|----------------|
|   | #                 | \$             |
| As at December 31, 2016                   | 520,253           | 400            |
| Issued during the period (net)            | 15,554,755        | 233,534        |
| Exercise of options                       | 261,233           | 174            |
| Exchange of Class A to V preferred shares | 21,403,880        | 800            |
| <b>As at December 31, 2017</b>            | <b>37,740,121</b> | <b>234,908</b> |

|   | Class A-V Preferred Shares |           | Class W Preferred Shares (Note 11) |          |
|---|----------------------------|-----------|------------------------------------|----------|
|   | #                          | \$        | #                                  | \$       |
| As at December 31, 2016                           | 21,314,440                 | 197,901   | —                                  | —        |
| Issued during the year                            | 96,636                     | 1,391     | 94,592,252                         | 94,592   |
| Accelerated vesting of preferred shares (Note 10) | —                          | 11,527    | —                                  | —        |
| Repurchased during the year                       | (7,196)                    | (50)      | —                                  | —        |
| Redeemed during the year                          | (21,403,880)               | (239,565) | (94,592,252)                       | (94,592) |
| Preferred share accretion during the year         | —                          | 28,796    | —                                  | —        |
| <b>As at December 31, 2017</b>                    | <b>—</b>                   | <b>—</b>  | <b>—</b>                           | <b>—</b> |

As at December 31, 2018 and 2017, the authorized share capital consisted of:

- Unlimited number of Common Shares with no par value. The holders of Common Shares are entitled to receive dividends as declared from time to time, and are entitled to one vote per share at meetings of the Company.
- Unlimited number of Preference Shares, issuable in series.

As at June 30, 2017, the authorized share capital consisted of:

- Unlimited number of common shares with no par value.
- Unlimited number of class A common shares with no par value.
- Unlimited number of convertible and redeemable preferred shares, issuable in series, voting, with a cumulative dividend accruing at 4.5% annually as and when declared. Retractable by the holder and redeemable by the Company at an amount that is the greater of: a) the original purchase price plus any declared but unpaid dividends and b) the as-if converted value (convertible 1:1 for common shares, subject to adjustment for declared and unpaid dividends) (the "Class A to V" preferred shares). Prior to any conversion, the preferred shareholder who was converting was entitled to receive a return of capital in an amount equal to the amount paid by the shareholder to the Company for such shares less the value, at the time of the issuance of the preferred shares, of the common shares issuable upon conversion of those preferred shares (the "Return of Capital Right").



- d) Unlimited number of redeemable preferred shares, non-voting with a cumulative dividend accruing at 4.5% compounded quarterly as and when declared. Retractable by the holder and redeemable by Company at an amount equal to \$1.00 per share plus accrued and unpaid dividends (the “Class W preferred shares”).

On May 25, 2017, preferred shares issued as deferred compensation to LVHS were vested under an accelerated vesting agreement. The accrued compensation had been reclassified to redeemable preferred shares on the consolidated statements of financial position.

On June 8, 2017, the Supreme Court in British Columbia (the Company’s governing jurisdiction at the time) granted an order to amend and rectify certain language in the articles of the Company and to create 22 separate classes of preferred shares. The purpose of the order was to clarify the Return of Capital Right of preferred shareholders and to facilitate the payment of a cumulative 4.5% dividend upon declaration prior to the conversion of preferred shares into common shares. The amended articles had been considered in the accounting for the preferred shares on a prospective basis.

#### Pre-closing capital changes

Prior to the closing of the Offering, the Company executed the following transactions (collectively, the “Reorganization”): (i) declared accrued and unpaid dividends (at 4.5% compounded quarterly) on the then outstanding Class A to V and Class W preferred shares in an aggregate amount of \$9,605, which dividends (net of Part XIII tax withholdings (the “Dividend Tax Withholding”)) were satisfied through the issuance of promissory notes (the “Dividend Notes”); (ii) returned capital on the then outstanding Class A to V preferred shares in the aggregate amount of \$65,102, which return of capital was satisfied through the issuance of promissory notes (the “ROC Notes”); (iii) redeemed all of the outstanding Class W preferred shares in exchange for a note payable of \$94,592 (“Class W Promissory Note”); and (iv) agreed to remit the Dividend Tax Withholding and Finco Tax Payable of \$3,697 (refer to Note 11).

The Company used a portion of the proceeds from the Offering to repay the Dividend Notes, the ROC Notes, the Class W Promissory Note, and the Finco Tax Payable, such that these obligations are no longer outstanding.

Following the transactions described immediately above and also forming part of the Reorganization: (i) each of the holders of the then outstanding Class A to V preferred shares converted their shares on a 1:1 basis into Common Shares of the Company; and (ii) the Company filed articles of amendment to split each common share into 20.81010939 Common Shares, add a new class of Preference Shares and eliminate the Class A common shares and Class A to W preferred shares. In addition, the Company amended and restated the Legacy Option Plan and entered into option exchange agreements (as described in Note 16).

## 16. SHARE-BASED COMPENSATION

All options that had been issued under the Legacy Option Plan vested in conjunction with the Offering and Secondary Offering.

Outstanding options held under the Legacy Option Plan and LTIP to purchase common shares have the following expiry dates and exercise prices:

| Range of Exercise Prices | 2018 Outstanding Options      |   |                                       | 2018 Exercisable Options      |                                       |
|--------------------------|-------------------------------|---|---------------------------------------|-------------------------------|---------------------------------------|
|                          | Number of Options Outstanding | Weighted Average Remaining Contractual Life (Years) | Weighted Average Exercise Price/Share | Number of Exercisable Options | Weighted Average Exercise Price/Share |
| \$0.00 – \$10.00         | 1,281,719                     | 6.43  | 1.99                                  | 1,281,719                     | 1.99                                  |
| \$10.01 – \$20.00        | 1,199,050                     | 7.51  | 15.07                                 | 807,550                       | 14.72                                 |
| \$20.01 – \$30.00        | 478,106                       | 9.46  | 25.58                                 | —                             | —                                     |

The following is a summary of the Company's share option plan activity for the years ended December 31:

|                                | 2018             |                                       | 2017             |                                       |
|--------------------------------|------------------|---------------------------------------|------------------|---------------------------------------|
|                                | Number of Shares | Weighted Average Exercise Price/Share | Number of Shares | Weighted Average Exercise Price/Share |
| Outstanding, beginning of year | 3,005,088        | 8.13                                  | 2,505,059        | 4.42                                  |
| Granted                        | 518,956          | 25.61                                 | 1,043,662        | 13.97                                 |
| Exercised                      | (448,944)        | 5.87                                  | (261,233)        | 0.67                                  |
| Forfeited                      | (116,225)        | 19.35                                 | (282,400)        | 3.89                                  |
| Outstanding, end of year       | 2,958,875        | 11.10                                 | 3,005,088        | 8.13                                  |
| Exercisable, end of year       | 2,089,269        | 6.91                                  | 2,275,722        | 5.59                                  |

The following is a summary of the Company's PSU and RSU activity for the year ended December 31:

|                               | 2018     |        |
|-------------------------------|----------|--------|
|                               | PSUs     | RSUs   |
| Outstanding beginning of year | —        | —      |
| Granted                       | 108,280  | 27,000 |
| Forfeited                     | (12,574) | —      |
| Outstanding end of year       | 95,706   | 27,000 |
| Exercisable, end of year      | —        | —      |

The inputs used in measuring the fair value of equity-based compensation granted during the years ended December 31 are shown in the table below.

| Type of compensation                                 | 2018          |             | 2017                    |
|--|---------------|-------------|-------------------------|
|  | Options       | PSUs        | Options                 |
| Weighted average share price at the measurement date | \$25.61       | \$25.01     | \$13.48                 |
| Weighted average fair value at the grant date        | \$7.57        | \$14.65     | \$4.85                  |
| Expected volatility (i)                              | 32% – 38%     | 32% – 36%   | 35% – 43%               |
| Risk-free interest rate (ii)                         | 1.9% – 2.1%   | 1.9% – 2.3% | 1.1% – 1.9%             |
| Expected life (in years) (iii)                       | 5.5 – 7       | 3.0         | 3 – 6.5                 |
| Expected dividend yield                              | 1.2% – 1.5%   | 1.2% – 1.3% | 0% – 2.0%               |
| Pricing Model  | Black-Scholes | Monte Carlo | Black-Scholes, Binomial |

(i) Estimated by considering comparable industry share price volatility. The expected volatility reflects the assumption that the historical volatility over a period similar to the life of the options is indicative of future trends, which may not necessarily be the actual outcome either.

(ii) Based on Government of Canada Bonds.

(iii) Based on historical data and current expectations and is not necessarily indicative of exercise patterns that may occur.

The fair value of RSUs granted during 2018 was \$738.

The Company's share-based compensation expense for the year ended December 31, 2018 is \$3,067 (2017 – \$4,839), and is classified as contributed surplus on the Company's consolidated statements of financial position.

## 17. EMPLOYEE BENEFITS EXPENSE

The Company recognized employee benefit expenses included in cost of sales and selling, general and administrative expenses on the consolidated statements of operations and other comprehensive income (loss) as follows:

| For the year ended December 31,    | 2018<br>\$    | 2017<br>\$ |
|------------------------------------|---------------|------------|
| Salaries, wages and bonus          | 59,873        | 52,212     |
| Other employee benefits            | 12,205        | 10,704     |
| Post-retirement benefits (Note 13) | 592           | 500        |
|                                    | <b>72,670</b> | 63,416     |

Additionally, the Company recognized termination benefits for the year ended December 31, 2018 of \$2,918 (2017 – \$4,132) related to reorganization activities to gain flexibility and improve efficiency. The costs related to both years are mainly composed of severance costs and salary continuances.

## 18. OTHER EXPENSES

| As at December 31,             | 2018<br>\$ | 2017<br>\$ |
|--------------------------------|------------|------------|
| Deferred compensation (Note 4) | (1,066)    | 8,427      |
| Consulting costs               | 961        | —          |
| Other                          | 403        | 983        |
|                                | <b>298</b> | 9,410      |

## 19. INTEREST EXPENSE AND OTHER FINANCING COSTS

| As at December 31,                                | 2018<br>\$   | 2017<br>\$ |
|---|--------------|------------|
| Interest on debt and borrowings                   | 7,547        | 9,209      |
| Interest on note to Finco (Note 11)               | —            | (8,966)    |
| Amortization of deferred financing fees (Note 12) | 1,453        | 4,490      |
|   | <b>9,000</b> | 4,733      |

## 20. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT ACTIVITIES

### Financial instruments

The Company's financial assets and liabilities have been classified in Note 2.

### Fair value measurement

Foreign exchange forward contracts measured at FVOCI are designated as hedging instruments in cash flow hedges for forecast purchases and sales in US\$ and have been classified as Level 2 in the fair value hierarchy. Derivatives not designated in a formal hedging relationship are classified as FVTPL and classified as Level 2 in the fair value hierarchy. Net gains and losses on financial instruments held for trading consist of realized and unrealized gains and losses on derivatives that were de-designated or were otherwise not in a formal hedging relationship.

The Company is holding the following foreign exchange forward contracts:

|                                | Maturity          |               |               |               |                | Total  |
|--------------------------------|-------------------|---------------|---------------|---------------|----------------|--------|
|                                | Less than 1 month | 1 to 3 months | 3 to 6 months | 6 to 9 months | 9 to 12 months |        |
| <b>As at December 31, 2018</b> |                   |               |               |               |                |        |
| Notional Amount (\$USD)        | 3,000             | 6,000         | 9,000         | 9,000         | 9,000          | 36,000 |
| Average forward rate (USD/CAD) | 1.25              | 1.25          | 1.25          | 1.30          | 1.292          | —      |
| <b>As at December 31, 2017</b> |                   |               |               |               |                |        |
| Notional Amount (\$USD)        | 3,000             | 6,000         | 9,000         | 10,000        | 8,000          | 36,000 |
| Average forward rate (USD/CAD) | 1.34              | 1.33          | 1.33          | 1.24          | 1.24           | —      |

The fair values and notional amounts of derivative financial instruments shown below are as at December 31:

|   | 2018                     |             |                 | 2017                     |             |                 |
|---|--------------------------|-------------|-----------------|--------------------------|-------------|-----------------|
|   | Notional Amount<br>\$USD | Fair Value  |                 | Notional Amount<br>\$USD | Fair Value  |                 |
|   |                          | Asset<br>\$ | Liability<br>\$ |                          | Asset<br>\$ | Liability<br>\$ |
| Foreign currency forward contract designated as hedging instruments | 36,000                   | 3,124       | —               | 36,000                   | —           | (1,081)         |

The terms of the foreign currency forward contracts match the terms of the expected highly probable forecast transactions. As a result, there is no hedge ineffectiveness to be recognized in the consolidated statements of operations and comprehensive income (loss).

Potential sources of hedge ineffectiveness are:

- Differences in the timing of the cash flows of the hedged items and the hedging instruments;
- The counterparty's credit risk differently impacting the fair value movements of the hedging instruments and hedged items; and
- Changes to the forecasted amount of cash flows of hedged items and hedging instruments.

The fair values of financial assets and liabilities classified as amortized cost (excluding long-term debt) approximate their carrying value due to their short-term nature.

The carrying value of long-term debt as at December 31, 2018 and December 31, 2017 approximates their fair value. The fair value of the Company's long-term debt was estimated based on discounted future cash flows using current rates for similar financial instruments subject to similar risks and maturities. The fair value of long-term debt is considered a Level 2 fair value measurement.

There were no transfers between levels during 2018 and 2017.

#### Financial instrument risk management objectives and policies

The Company is exposed to credit risk, market risk and liquidity risk. The Company's senior management oversees the management of these risks. The Company's financial instruments and policies for managing these risks are detailed below.

#### Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations, resulting in financial loss to the Company. The Company is exposed to credit risk from its customers (primarily related to trade accounts receivable) in the normal course of business. The Company has adopted a policy of only dealing with creditworthy counterparties. To mitigate this risk, the Company carries out regular credit evaluations and purchases credit insurance for international customers, where appropriate, as a means of mitigating the risk of financial loss from defaults.

The Company is also exposed to counterparty credit risk inherent in its financing activities, trade receivable insurance and foreign currency derivatives. The Company has assessed these risks as minimal.

## Market risk

### Foreign exchange risk

Foreign exchange risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company's exposure to the risk of changes in foreign exchange rates relates primarily from transactions in US dollars such as a portion of trade accounts payable, trade accounts receivable and cash.

The Company uses foreign exchange forward contracts to manage foreign exchange transaction exposure. As of December 31, 2018, \$45,814 (2017 – \$46,259) of anticipated foreign currency denominated sales and purchases have been hedged with underlying foreign exchange forward contracts settling at various dates in the year preceding the consolidated statements of financial position date.

The following table demonstrates the sensitivity to a reasonably possible change in the US dollar exchange rate, with all other variables held constant, of the Company's net income (loss) before income taxes (due to changes in the fair value of monetary assets and liabilities including non-designated foreign currency derivatives) and the Company's pre-tax OCI (due to changes in the fair value of foreign exchange forward contracts designated as cash flow hedges).

| As at December 31, | Change in<br>US\$ fx rate<br>% | Effect on<br>income (loss)<br>before tax<br>\$ | Effect on<br>pre-tax OCI<br>\$ |
|--------------------|--------------------------------|--|--------------------------------|
| <b>2018</b>        | <b>5</b>                       | <b>388</b>                                     | <b>1,800</b>                   |
| 2017               | 5                              | 521  | 1,800                          |

The Company's exposure to foreign currency changes for all other currencies is not material.

### Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's accounts receivable and accounts payable are non-interest bearing. The Company's exposure to the risk of changes in market interest rates arises from long-term debt obligations issued at fixed rates that create fair value interest rate risk and variable rate borrowings that create cash flow interest rate risk.

The Company manages its interest rate risk by having a balanced portfolio of fixed and variable rate loans and borrowings.

With all other variables held constant, the sensitivity to a reasonably possible change in interest rates on floating rate borrowings of the Company would have the following impact to net income (loss) before income taxes:

| As at December 31, | Increase/decrease<br>in basis points<br>+/- | Effect on income<br>(loss) before tax<br>\$ |
|--------------------|---|---|
| <b>2018</b>        | <b>100</b>                                  | <b>1,773</b>                                |
| 2017               | 100   | 1,936                                       |

Changes in market interest rates cause the fair value of long-term debt with fixed interest rates to fluctuate but do not affect net income (loss), as the Company's debt is carried at amortized cost and the carrying value does not change as interest rates change.

### Commodity price risk

The Company is exposed to price risk related to purchases of certain commodities used as raw materials. The Company may use fixed price contracts with suppliers to mitigate commodity price risk. Concentration in any one raw material is not significant to the Company.

### Liquidity risk

Liquidity risk is the risk the Company will not be able to meet its financial obligations associated with financial liabilities. The Company is exposed to this risk mainly in respect of its accounts payable and accrued liabilities, various long-term debt agreements, obligations under its post-retirement benefits plan and operating lease commitments.

The Company manages its liquidity risk through continuous monitoring of its forecast and actual cash flows and also through the management of its capital structure. The Company continually revises its available liquid resources as compared to the timing of the payment of liabilities to manage its liquidity risk.

The contractual undiscounted principal cash flows payable in respect of financial liabilities as at the consolidated statements of financial position date were as follows:

| As at December 31,                     | 2018<br>\$     | 2017<br>\$ |
|--|----------------|------------|
| Amounts payable in more than 12 months | 157,236        | 162,794    |
| Amounts payable in less than 12 months | 98,106         | 76,371     |
|  | <b>255,342</b> | 239,165    |

#### Capital

The Company's objective is to maintain a cost-effective capital structure that supports its long-term growth strategy, supports the business and maximizes shareholder value. The Company typically uses leverage in its capital structure to reduce the cost of capital. The Company's goal is to maintain its primary credit ratios and leverage at levels that are designed to provide continued access to investment-grade credit pricing and terms. The Company measures its credit profile using a number of metrics, some of which are non-IFRS measures, primarily cash, less long-term debt and bank indebtedness ("net cash (debt)") to earnings before interest, income taxes, depreciation, amortization, restructuring and other related costs, and interest coverage. Additionally, the Company maintains a cash flow reserve to service obligations as they come due.

In addition to senior debt, credit facilities, and equity, the Company uses leases as additional sources of financing.

There have been no material changes to the Company's risk management activities since inception of the Company's operations.

The Company is subject to capital requirements under the credit facility agreement, as described in Note 12. As at December 31, 2018, the Company was in compliance with all financial covenants.

## 21. COMMITMENTS AND CONTINGENCIES

#### Operating lease commitments

JLL and its subsidiaries have entered into a number of operating leases for vehicles, production equipment, computer and communications equipment, office equipment and office space.

Total minimum lease payments payable in future years are as follows:

| As at December 31,                          | 2018<br>\$    | 2017<br>\$ |
|---|---------------|------------|
| Within one year                             | 2,790         | 1,766      |
| After one year but not more than five years | 3,436         | 1,726      |
| More than five years                        | 3,882         | —          |
|   | <b>10,108</b> | 3,492      |

For the year ended December 31, 2018, an amount of \$2,133 was recognized as an expense in respect of operating leases (2017 – \$1,692).

#### General contingencies

In addition, various claims and potential claims arising in the normal course of operation are pending against JLL. It is the opinion of management that these claims or potential claims are without merit and the amount of potential liability, if any, is not determinable. Management believes the final determination of these claims or potential claims will not materially affect the financial position or results of the Company.

## 22. SEGMENT INFORMATION

The Company has two reportable operating segments with all material operations carried out in Canada:

- The Jamieson Brands segment principal activity is the manufacturing, distribution and marketing of branded natural health products including vitamins, minerals and supplements; and

- The Strategic Partners segment principal activity is providing contract manufacturing services to consumer health companies and retailers worldwide.

The Company's chief operating decision maker evaluates segment performance on the basis of earnings from operations, as reported to internal management, on a periodic basis.

Inter-segment revenues and expenses are eliminated upon consolidation and relate mainly to sales from the Strategic Partners segment to the Jamieson Brands segment. Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties.

|  | For the year ended December 31, 2018 |                          |             |
|--|--------------------------------------|--------------------------|-------------|
|  | Jamieson Brands<br>\$                | Strategic Partners<br>\$ | Total<br>\$ |
| Revenue                                    | 243,772                              | 76,004                   | 319,776     |
| Earnings from operations                   | 45,171                               | 4,919                    | 50,090      |
| Foreign exchange loss                      |                                      |                          | 608         |
| Termination benefits and related costs     |                                      |                          | 2,933       |
| Other expenses                             |                                      |                          | 298         |
| Interest expense and other financing costs |                                      |                          | 9,000       |
| Provision for income taxes                 |                                      |                          | 10,578      |
| Net income                                 |                                      |                          | 26,673      |

|  | For the year ended December 31, 2017 |                          |             |
|--|--------------------------------------|--------------------------|-------------|
|  | Jamieson Brands<br>\$                | Strategic Partners<br>\$ | Total<br>\$ |
| Revenue                                    | 237,001                              | 63,618                   | 300,619     |
| Earnings from operations                   | 37,595                               | 7,340                    | 44,935      |
| Foreign exchange loss                      |                                      |                          | 331         |
| Termination benefits and related costs     |                                      |                          | 4,132       |
| Public offering costs                      |                                      |                          | 10,720      |
| Acquisition costs                          |                                      |                          | 2,444       |
| Other expenses                             |                                      |                          | 9,410       |
| Preferred share accretion                  |                                      |                          | 28,796      |
| Interest expense and other financing costs |                                      |                          | 4,733       |
| Provision for income taxes                 |                                      |                          | 8,156       |
| Net loss                                   |                                      |                          | (23,787)    |

Share-based compensation is allocated to the Jamieson Brands operating segment.

#### Geographic information

Net income earned outside of Canada for the years ended December 31, 2018 and 2017 represents an insignificant portion of total net income.

Information about major customers

The following table provides the proportion of revenue attributed to each significant customer:

| For the years ended December 31, | 2018  | 2017  |
|----------------------------------|-------|-------|
| Customer 1                       | 17.0% | 17.9% |
| Customer 2                       | 11.2% | 10.6% |
| Customer 3                       | 9.9%  | 10.5% |
|                                  | 38.1% | 39.0% |

The revenue concentration noted mirrors the consolidated nature of the retail grocery landscape in Canada. It is management's opinion that the loss of any customer, significant or otherwise, would not impact the Company's viability. No other sales were made to any one customer that represented more than 10% of total sales.

## 23. REVENUE FROM CONTRACTS WITH CUSTOMERS

The following table sets forth the disaggregation of the Company's revenue from contracts with customers in the Jamieson Brands operating segment:

| For the years ended December 31,            | 2018<br>\$ | 2017<br>\$ |
|---|------------|------------|
| Domestic sales                              | 169,432    | 165,552    |
| International sales                         | 27,462     | 21,420     |
| Specialty Brands sales                      | 46,878     | 50,029     |
| Total revenue from contracts with customers | 243,772    | 237,001    |

Revenues generated from our previous acquisitions of Body Plus and LVHS are known as "Specialty Brands" given the availability of these brands across food, drug and health food channels.

## 24. INCOME PER SHARE

Basic income (loss) per share amounts are calculated by dividing the net income (loss) attributable to common shareholders of the Company less dividends declared and paid to preferred shareholders by the weighted average number of shares outstanding during the year.

Diluted income (loss) per share amounts are calculated by dividing the net income (loss) attributable to common shareholders of the Company less dividends declared and paid to preferred shareholders by the weighted average number of shares outstanding during the year, adjusted for the effects of potentially dilutive preferred shares, share options, PSUs, and RSUs.

The following table sets forth the calculation of net income (loss) available to common shareholders:

| For the year ended December 31,                           | 2018<br>\$ | 2017<br>\$ |
|---|------------|------------|
| Net income (loss)   | 26,673     | (23,787)   |
| Preferred share dividends                                 | —          | (9,605)    |
| Basic, net income (loss) available to common shareholders | 26,673     | (33,392)   |



The following table sets forth the calculation of basic and diluted income (loss) per share (“EPS”), and reflects the impact of the share split as if it was retrospectively applied to all periods presented:

| Year ended December 31, | 2018  |                                   |        | 2017                                      |                                   |        |
|-------------------------|---|-----------------------------------|--------|---|-----------------------------------|--------|
|                         | Net income available to common shareholders | Weighted average number of shares | EPS \$ | Net loss available to common shareholders | Weighted average number of shares | EPS \$ |
| <i>Basic</i>            |   |                                   |        |   |                                   |        |
| Continuing operations   | 26,673                                      | 38,009,443                        | 0.70   | (33,392)                                  | 18,669,758                        | (1.79) |
| <i>Diluted</i>          |   |                                   |        |   |                                   |        |
| Continuing operations   | 26,673                                      | 39,531,078                        | 0.67   | (33,392)                                  | 18,669,758                        | (1.79) |

For the year ended December 31, 2017, diluted EPS excludes the effect of approximately 3,005,088 options on a post share split basis that are anti-dilutive.

## 25. FUTURE ACCOUNTING STANDARDS ISSUED BUT NOT YET EFFECTIVE

The standards and interpretations that have been issued, but are not yet effective, up to the date of issuance of these consolidated financial statements are disclosed below. The Company intends to adopt these standards on the required effective date.

### IFRIC Interpretation 23, “Uncertainty over Income Tax Treatment”

IFRS Interpretation 23 (the “Interpretation”) addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 and does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.

The Interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances

An entity must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed. The Interpretation is effective for annual reporting periods beginning on or after January 1, 2019, but certain transition reliefs are available.

### IAS 19, “Plan Amendment, Curtailment or Settlement (Amendment to IAS 19)”

IAS 19, “Employee Benefits” (“IAS 19”), specifies how a company accounts for a defined benefit plan. When a plan event (i.e. a plan amendment, curtailment or settlement) occurs, IAS 19 requires a company to update its assumptions and remeasure its net defined benefit liability or asset.

The amendments clarify that after a plan event, a company would use these updated assumptions to measure current service cost and net interest for the remainder of the reporting period after the plan event. The amendments are effective for annual periods beginning on or after January 1, 2019, with early application permitted.

### IAS 12, “Income tax consequences of payments on instruments classified as equity (Amendments to IAS 12)”

IAS 12 requires a company to recognize the tax consequences of dividends in profit or loss in some circumstances.

The amendments to IAS 12 clarify that a company accounts for all income tax consequences of dividends in the same way, regardless of how the tax arises, and are effective for annual periods beginning on or after January 1, 2019, with early application permitted.

The Company is currently evaluating the impact of these three new amendments on its consolidated financial statements.

IFRS 16, "Leases"

In January 2016, the IASB issued IFRS 16, "Leases" ("IFRS 16"), which replaces IAS 17, "Leases" ("IAS 17"), and its associated interpretative guidance. The new standard brings most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. The standard is effective for annual periods beginning on or after January 1, 2019, with early adoption permitted if entities have also applied IFRS 15.

At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

*Transition to IFRS 16*

The Company plans to adopt the modified retrospective approach on January 1, 2019 and measure the right-of-use asset at its carrying amount as if IFRS 16 had been applied since the commencement date. The Company will elect to apply the standard to contracts that were previously identified as leases under IAS 17 and IFRIC 4 and has performed a completeness check to ensure all leases have been considered in the implementation of the new standard. The Company will elect to use the exemptions proposed by the standard on lease contracts for which the lease terms end within 12 months as of the date of initial application, and lease contracts for which the underlying asset is of low value.

The Company has completed a preliminary evaluation of IFRS 16, including quantifying the impact of the transitional adjustment of this new standard on the opening consolidated statements of financial position, which is as follows:

| As at                                     | January 1, 2019<br>\$ |
|---|-----------------------|
| Prepaid expenses and other current assets | (259)                 |
| Property, plant and equipment             | 7,434                 |
| Accounts payable and accrued liabilities  | (300)                 |
| Other long-term liabilities               | 7,799                 |
| Deferred income tax                       | (85)                  |
| Deficit                                   | (239)                 |

On the consolidated statements of operations and comprehensive income (loss), the Company's depreciation of property, plant and equipment included in cost of sales and selling, general and administrative expenses and interest expense and other financing costs will increase and operating lease expenses included in cost of sales and selling, general and administrative expenses will decrease.

On the consolidated statements of cash flows, cash flows from operating activities will increase due to higher depreciation of property, plant and equipment. Cash flows from financing activities will decrease due to repayment of lease liabilities.

OUR CORE IS WHAT  
FORTIFIES OUR FUTURE





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