



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

**For the three and nine months ended September 30, 2018**

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

### **For the three and nine months ended September 30, 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 November 6, 2018. It should be read in conjunction with our unaudited condensed consolidated interim financial statements and our accompanying notes as at and for the three and nine months ended September 30, 2018, our audited consolidated annual financial statements and accompanying notes for the year ended December 31, 2017 and the related annual MD&A.

Our unaudited condensed consolidated interim financial statements and accompanying notes for the three and nine months ended September 30, 2018 have been prepared in accordance with IAS 34, "Interim Financial Reporting" under International Financial Reporting Standards ("IFRS"). These unaudited condensed consolidated interim 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 "Q3 2018" are to our fiscal quarter ended September 30, 2018 and to "Q3 2017" are to our fiscal quarter ended September 30, 2017. All references in this MD&A to "YTD 2018" are to our nine-month period ended September 30, 2018 and to "YTD 2017" are to our nine-month period ended September 30, 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 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 those discussed under the “*Risk Factors*” section of the annual information form of the Company for the year ended December 31, 2017.

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, all of which we refer to as our “Jamieson Brands” segment. Specifically, we refer to our LVHS, Progressive, Precision and Iron Vegan brands as “Specialty Brands”, given the breadth of our distribution and availability of all of our brands in both food, drug and mass (“FDM”) 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 has 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 brand, 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 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 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, 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 depends 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 Brand***

Our iconic brand has 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 in which 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. The majority of our suppliers have had a relationship with us 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 2017, 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***

Under IFRS 15, revenue is recognized when a customer obtains control of the goods or services. 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. Payment is generally due 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.

Under IFRS 15, 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. The application of the constraint on variable consideration increases the amount of revenue that will be deferred.

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. We apply the expected value method estimating sales promotional incentives provided to customers based on historical spending patterns. Sales discounts and promotional incentives are recognized as reductions of revenue when control of the products purchased is transferred to the customers.

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. A provision for returns and sales provisions is recognized at the time the product is sold and recognized as a reduction to revenue.

As required for the unaudited condensed consolidated interim financial statements, we have disaggregated revenue recognized from contracts with customers. Please refer to Note 13 in our unaudited condensed consolidated interim 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, fixed fee trade 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 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. We believe Adjusted Diluted Earnings per Share is a useful measure to assess the performance of our Company as it provides a consistent number of shares from which to evaluate our underlying business performance.

## 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 unaudited condensed consolidated interim 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.

	Three months ended		Nine months ended	
	September 30		September 30	
	2018	2017	2018	2017
<i>(\$ in 000's, except as otherwise noted)</i>				
<b>Revenue</b>	<b>83,079</b>	<b>80,145</b>	<b>230,292</b>	<b>216,301</b>
Cost of sales	55,481	53,722	150,991	142,349
Gross profit	27,598	26,423	79,301	73,952
Selling, general and administrative expenses	13,901	12,713	44,524	39,337
Share-based compensation	1,007	2,429	1,789	4,613
<b>Earnings from operations</b>	<b>12,690</b>	<b>11,281</b>	<b>32,988</b>	<b>30,002</b>
<b>Operating margin</b>	<b>15.3%</b>	<b>14.1%</b>	<b>14.3%</b>	<b>13.9%</b>
Foreign exchange loss (gain)	127	(203)	519	215
Termination benefits and related costs	26	-	2,804	2,499
Public offering costs	-	2,636	-	9,520
Acquisition costs	-	140	-	2,443
Other expenses	87	2,506	234	6,430
Preferred share accretion	-	-	-	28,796
Interest expense and other financing costs	2,249	2,365	6,610	2,593
Income (loss) before income taxes	10,201	3,837	22,821	(22,494)
Provision for income taxes	2,988	2,748	6,194	5,026
<b>Net income (loss)</b>	<b>7,213</b>	<b>1,089</b>	<b>16,627</b>	<b>(27,520)</b>
<b>Adjusted net income</b>	<b>8,853</b>	<b>7,793</b>	<b>21,516</b>	<b>17,833</b>
<b>EBITDA</b>	<b>14,771</b>	<b>8,346</b>	<b>36,077</b>	<b>15,206</b>
<b>Adjusted EBITDA</b>	<b>17,856</b>	<b>16,134</b>	<b>44,695</b>	<b>42,629</b>
<b>Net income (loss)</b>	<b>7,213</b>	<b>1,089</b>	<b>16,627</b>	<b>(27,520)</b>
Preferred share dividend	-	(9,605)	-	(9,605)
<b>Basic, net income (loss) attributable to common shareholders:</b>	<b>7,213</b>	<b>(8,516)</b>	<b>16,627</b>	<b>(37,125)</b>
Preferred share accretion	-	-	-	-
<b>Diluted, net income (loss) attributable to common shareholders:</b>	<b>7,213</b>	<b>(8,516)</b>	<b>16,627</b>	<b>(37,125)</b>
<b>Weighted average number of shares</b>				
Basic	38,081,264	35,322,657	37,956,484	12,247,370
Diluted	39,858,357	35,322,657	39,727,134	12,247,370
Adjusted Diluted	39,858,357	39,858,357	39,858,357	39,858,357
<b>Earnings per share attributable to common shareholders:</b>				
Basic, earnings (loss) per share	0.19	(0.24)	0.44	(3.03)
Diluted, earnings (loss) per share	0.18	(0.24)	0.42	(3.03)
Adjusted Diluted, earnings per share	0.22	0.20	0.54	0.45

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

<i>(\$ in 000's)</i>	<u>As at September 30, 2018</u>	<u>As at December 31, 2017</u>
<b>Selected Consolidated Financial Position Data:</b>		
Total assets	534,528	512,555
Total non-current liabilities	213,337	210,012

**Results of Operations — three months ended September 30, 2018 and 2017**

The following table provides a summary of our results for the three months ended September 30, 2018 and September 30, 2017.

<i>(\$ in 000's, except as otherwise noted)</i>	<b>Three months ended</b>		<b>\$ Change</b>	<b>% Change</b>
	<b>September 30</b>			
	<u>2018</u>	<u>2017</u>		
<b>Revenue</b>	<b>83,079</b>	<b>80,145</b>	<b>2,934</b>	<b>3.7%</b>
Cost of sales	55,481	53,722	1,759	3.3%
Gross profit	27,598	26,423	1,175	4.4%
Selling, general and administrative expenses	13,901	12,713	1,188	9.3%
Share-based compensation	1,007	2,429	(1,422)	(58.5%)
<b>Earnings from operations</b>	<b>12,690</b>	<b>11,281</b>	<b>1,409</b>	<b>12.5%</b>
<b>Operating margin</b>	<b>15.3%</b>	<b>14.1%</b>	-	<b>1.2%</b>
Foreign exchange loss (gain)	127	(203)	330	162.6%
Termination benefits and related costs	26	-	26	100.0%
Public offering costs	-	2,636	(2,636)	(100.0%)
Acquisition costs	-	140	(140)	(100.0%)
Other expenses	87	2,506	(2,419)	(96.5%)
Interest expense and other financing costs	2,249	2,365	(116)	(4.9%)
Income before income taxes	10,201	3,837	6,364	165.9%
Provision for income taxes	2,988	2,748	240	8.7%
<b>Net income</b>	<b>7,213</b>	<b>1,089</b>	<b>6,124</b>	<b>562.4%</b>
<b>Adjusted net income</b>	<b>8,853</b>	<b>7,793</b>	<b>1,060</b>	<b>13.6%</b>
<b>EBITDA</b>	<b>14,771</b>	<b>8,346</b>	<b>6,425</b>	<b>77.0%</b>
<b>Adjusted EBITDA</b>	<b>17,856</b>	<b>16,134</b>	<b>1,722</b>	<b>10.7%</b>

The following table provides a reconciliation of net income (loss) to EBITDA and Adjusted EBITDA for the three months ended September 30, 2018 and September 30, 2017.

	Three months ended		\$ Change	% Change
	September 30			
<i>(\$ in 000's, except as otherwise noted)</i>	2018	2017		
<b>Net income</b>	<b>7,213</b>	<b>1,089</b>	<b>6,124</b>	<b>562.4%</b>
<i>Add:</i>				
Provision for income taxes	2,988	2,748	240	8.7%
Interest expense and other financing costs	2,249	2,365	(116)	(4.9%)
Depreciation of property, plant, and equipment	1,441	1,283	158	12.3%
Amortization of intangible assets	880	861	19	2.2%
<b>Earnings before interest, taxes, depreciation, and amortization (EBITDA)</b>	<b>14,771</b>	<b>8,346</b>	<b>6,425</b>	<b>77.0%</b>
<i>Add EBITDA adjustments:</i>				
Share-based compensation <sup>(1)</sup>	1,007	2,429	(1,422)	(58.5%)
Amortization of fair value adjustments <sup>(2)</sup>	-	282	(282)	(100.0%)
Foreign exchange loss (gain)	127	(203)	330	162.6%
Termination benefits and related costs	26	-	26	100.0%
Acquisition costs	-	140	(140)	(100.0%)
Purchase consideration accounted for as compensation expense <sup>(3)</sup>	-	2,215	(2,215)	(100.0%)
Public offering costs	-	2,636	(2,636)	(100.0%)
International market expansion <sup>(4)</sup>	123	-	123	100.0%
Non-recurring business integration <sup>(5)</sup>	1,212	-	1,212	100.0%
Other <sup>(6)</sup>	590	289	301	104.2%
<b>Adjusted EBITDA</b>	<b>17,856</b>	<b>16,134</b>	<b>1,722</b>	<b>10.7%</b>

- (1) In Q3 2018, the Company's share-based compensation expense pertains to the LTIP (refer to "Share-based compensation"). In Q3 2017, share-based compensation expense includes the Legacy Option Plan and a \$1.7 million expense pertaining to the accelerated vesting of certain options under the Legacy Option Plan in connection with the Initial Offering.
- (2) In conjunction with the acquisition of Body Plus Nutritional Products Inc. ("Body Plus") and Sonoma Nutraceuticals Inc. ("Sonoma") on January 31, 2017, the fair value adjustment of inventory as part of the initial purchase price allocation was amortized.
- (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.
- (5) We incurred non-employee related expenses associated with the integration of our LVHS and Body Plus businesses including the consolidation of offices, warehouses and supply chain activities.
- (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 relocation at the end of October 2018, consulting fees for one-time projects and the review of acquisition opportunities. In 2017, we incurred non-recurring consulting services in relation to process improvement projects and one-time studies commissioned to understand specific markets and consumer trends in helping us identify the most strategic markets for international expansion.

The following table provides a reconciliation of net income (loss) to Adjusted Net Income for the three months ended September 30, 2018 and September 30, 2017.

(\$ in 000's, except as otherwise noted)	Three months ended		\$ Change	% Change
	September 30			
	2018	2017		
<b>Net income</b>	<b>7,213</b>	<b>1,089</b>	<b>6,124</b>	<b>562.4%</b>
<i>Adjustments to net income:</i>				
Share-based compensation <sup>(1)</sup>	114	1,708	(1,594)	(93.3%)
Amortization of fair value adjustments	-	282	(282)	(100.0%)
Foreign exchange loss (gain)	127	(203)	330	162.6%
Termination benefits and related costs	26	-	26	100.0%
Acquisition costs	-	140	(140)	(100.0%)
Purchase consideration accounted for as compensation expense	-	2,215	(2,215)	(100.0%)
Public offering costs	-	2,636	(2,636)	(100.0%)
International market expansion	123	-	123	100.0%
Non-recurring business integration	1,212	-	1,212	100.0%
Other	590	289	301	104.2%
Related tax effects	(552)	(363)	(189)	(52.1%)
<b>Adjusted net income</b>	<b>8,853</b>	<b>7,793</b>	<b>1,060</b>	<b>13.6%</b>

- (1) In 2018, this adjustment pertains to performance based share units ("PSUs") granted to certain employees on May 31, 2018 (refer to "Share-based compensation"). In 2017, the adjustment pertains to the accelerated vesting of certain options under the Legacy Option Plan in connection with the Initial Offering.

The following table provides selected financial information for our two operating segments for the three months ended September 30, 2018 and September 30, 2017.

#### *Jamieson Brands*

(\$ in 000's, except as otherwise noted)	For the three months ended September 30,		\$ Change	% Change
	2018	2017		
Revenue	65,207	61,889	3,318	5.4%
Gross profit	25,942	23,263	2,679	11.5%
Gross profit margin	39.8%	37.6%	-	2.2%
Selling, general and administrative expenses	12,369	11,206	1,163	10.4%
Share-based compensation	1,007	2,429	(1,422)	(58.5%)
Earnings from operations	12,566	9,628	2,938	30.5%
Operating margin	19.3%	15.6%	-	3.7%
Adjusted EBITDA	16,645	14,157	2,488	17.6%
Adjusted EBITDA margin	25.5%	22.9%	-	2.6%

The following table provides a reconciliation from earnings from operations to Adjusted EBITDA for the three months ended September 30, 2018 and September 30, 2017.

(\$ in 000's, except as otherwise noted)

For the three months ended September 30,	2018	2017	\$ Change	% Change
Earnings from operations	12,566	9,628	2,938	30.5%
Depreciation of property, plant, and equipment	1,056	959	97	10.1%
Amortization of intangible assets	874	861	13	1.5%
Share-based compensation	1,007	2,429	(1,422)	(58.5%)
Amortization of fair value adjustments	-	282	(282)	(100.0%)
International market expansion	123	-	123	100.0%
Non-recurring business integration	532	-	532	100.0%
Other	487	(2)	489	24450.0%
Adjusted EBITDA	<b>16,645</b>	<b>14,157</b>	<b>2,488</b>	<b>17.6%</b>

### Strategic Partners

(\$ in 000's, except as otherwise noted)

For the three months ended September 30,	2018	2017	\$ Change	% Change
Revenue	17,872	18,256	(384)	(2.1%)
Gross profit	1,656	3,160	(1,504)	(47.6%)
Gross profit margin	9.3%	17.3%	-	(8.0%)
Selling, general and administrative expenses	1,532	1,507	25	1.7%
Earnings from operations	124	1,653	(1,529)	(92.5%)
Operating margin	0.7%	9.1%	-	(8.4%)
Adjusted EBITDA	1,211	1,977	(766)	(38.7%)
Adjusted EBITDA margin	6.8%	10.8%	-	(4.0%)

The following table provides a reconciliation from earnings from operations to Adjusted EBITDA for the three months ended September 30, 2018 and September 30, 2017.

(\$ in 000's, except as otherwise noted)

For the three months ended September 30,	2018	2017	\$ Change	% Change
Earnings from operations	124	1,653	(1,529)	(92.5%)
Depreciation of property, plant, and equipment	385	324	61	18.8%
Amortization of intangible assets	6	-	6	100.0%
Non-recurring business integration	680	-	680	100.0%
Other	16	-	16	100.0%
Adjusted EBITDA	<b>1,211</b>	<b>1,977</b>	<b>(766)</b>	<b>(38.7%)</b>

### Revenue

Revenue increased 3.7%, or \$2.9 million, to \$83.1 million in Q3 2018. Jamieson Brands increased by \$3.3 million or 5.4% growth while Strategic Partners revenues decreased by \$0.4 million or 2.1%.

Revenue in the Jamieson Brands segment increased 5.4%, or \$3.3 million, to \$65.2 million in Q3 2018 driven by higher domestic Jamieson sales of \$4.3 million and international growth of \$0.8 million, partially offset by lower volumes on Specialty Brands (formerly referred to as Health Foods including Body Plus and LVHS) of \$1.8 million. Our domestic Jamieson sales increased by 10.2% driven by higher volume from continued strong consumer demand in FDM, our February price increase, and timing, as the imbalance between consumer purchases and shipments noted in the prior quarter have normalized. Our international sales increased by 14.6% versus prior quarter, led by growth in the Middle East and Europe from both new and existing markets. Specialty Brands volumes weakened at an accelerated rate compared to prior quarters resulting in a decline of 12.3%. Our Specialty Brands volumes continue to be below our expectation impacted by the integration of our sales team, delayed timing of innovation, and trade investments in the prior year which were not repeated. The Company has taken the required steps to return to growth within Specialty Brands by appointing new leadership in order to drive key initiatives and streamline our innovation

processes. For further discussion on factors contributing to Specialty Brands performance and remediation, please refer to the “*Outlook*” section.

Revenue in the Strategic Partners segment decreased 2.1%, or \$0.4 million, to \$17.9 million in Q3 2018. Revenue was impacted by the delayed receipt of customer supplied fish oil and vitamin A leading to production delays and delivery shifting from the third quarter to the fourth quarter of 2018.

#### Gross profit

Gross profit increased by \$1.2 million, to \$27.6 million in Q3 2018 while gross profit margin remained relatively consistent at 33.2% in Q3 2018. The slight increase in gross profit is mainly driven by revenue growth and margin expansion in the Jamieson Brands segment as operating efficiencies and timing of promotional activities were offset by unfavourable customer mix and reduced plant efficiencies in the Strategic Partners segment due to timing of production shifting volume to the fourth quarter.

Gross profit in the Jamieson Brands segment increased \$2.7 million to \$25.9 million in Q3 2018. The increase was primarily driven by higher volumes and the impact of amortization of fair value inventory adjustments related to the Body Plus acquisition in 2017 of \$0.3 million. Gross profit margin increased by 220 basis points to 39.8% in Q3 2018. Normalizing for the impact of amortization of fair value inventory adjustments recorded in the prior year, gross profit margin increased by 170 basis points. Gross profit margin improved due to operating efficiencies and timing of promotional activities partially offset by overhead investments in supply chain and operations to drive operational efficiencies.

Gross profit in the Strategic Partners segment decreased \$1.5 million to \$1.7 million in Q3 2018 impacted by lower volumes and an increase of \$0.7 million in inventory write-offs stemming from the integration of our LVHS and Body Plus businesses. Normalizing for inventory write-offs, gross profit was \$0.8 million lower due to an expected reduction of margin resulting from customer mix and the shift in volume to the fourth quarter. Gross profit margin decreased by 800 basis points to 9.3% in Q3 2018 primarily due to customer mix discussed above and reduced plant efficiencies from timing of customers supplied raw materials.

#### Selling, general and administrative expenses

SG&A expenses increased by 9.3%, or \$1.2 million, to \$13.9 million in Q3 2018. Excluding \$1.1 million in non-recurring costs related to business integration, international market expansion, and other non-recurring costs, SG&A expenses were consistent with prior year. In the Jamieson Brands segment, higher marketing expenses of \$1.3 million to drive brand awareness were mostly offset by lower variable compensation of \$1.0 million. In the Strategic Partners segment, SG&A expenses were relatively consistent with the prior year.

#### Share-based compensation

Share-based compensation decreased by \$1.4 million to \$1.0 million in Q3 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.

#### Earnings from operations and operating margin

Earnings from operations increased 12.5%, or \$1.4 million, to \$12.7 million and operating margin increased 120 basis points to 15.3% in Q3 2018. Normalizing for the impact of fair value adjustments in the prior year, share-based compensation related to the accelerated vesting in the prior year and the impact of non-recurring SG&A of \$1.1 million in the current year, operating margin is 16.7%, consistent with 16.6% in Q3 2017. This change is due to the gross profit margin impact discussed above and planned SG&A increases related to timing of marketing activities in the period.

Earnings from operations in the Jamieson Brands segment increased 30.5%, or \$2.9 million, to \$12.6 million and operating margin increased 370 basis points to 19.3% in Q3 2018. Normalizing for the impact of fair value adjustments in the prior year, share-based compensation related to the accelerated vesting in the prior year and the

impact of non-recurring SG&A of \$1.1 million in the current year, operating margin increased by 220 basis points compared to 18.8% in Q3 2017. This change is primarily due to gross profit margin improvements discussed above.

Earnings from operations in the Strategic Partners segment decreased by \$1.5 million in Q3 2018 and operating margin decreased by 840 basis points to 0.7% in Q3 2018 as a result of a decrease in gross profit margin discussed above while SG&A expenses as a percentage of revenue remained relatively consistent to prior year.

#### Foreign exchange loss

Foreign exchange was a loss of \$0.1 million in Q3 2018 compared to a gain of \$0.2 million in Q3 2017 due to fluctuations in the USD/CAD exchange rates between the date of the transaction and when cash was settled.

#### Public offering costs

Public offering costs of \$2.6 million in Q3 2017 is related to our Initial Offering (refer to “*Initial Public Offering*”).

#### Acquisition costs

Acquisition costs of \$0.1 million in Q3 2017 were related to the January 31, 2017 acquisition of Body Plus and Sonoma.

#### Other expenses

Other expenses decreased by \$2.4 million to \$0.1 million in Q3 2018. In Q3 2017, other expenses were comprised of deferred consideration in relation to the acquisition of Body Plus and Sonoma for \$2.2 million and other non-recurring consulting services of \$0.3 million.

#### Interest expense and other financing costs

Interest expense and other financing costs decreased by \$0.1 million to \$2.2 million in Q3 2018 based on higher levels of borrowing offset by lower rates in the current quarter.

#### Provision for income taxes

Provision for income taxes increased by \$0.2 million to \$3.0 million in Q3 2018. Our Q3 2018 effective tax rate of 29.3% was impacted by non-deductible share-based compensation. Our Q3 2017 effective tax rate of 71.6% was significantly impacted by the accelerated share-based compensation and purchase consideration accounted for as compensation expense.

#### Depreciation

Depreciation expense increased by \$0.2 million to \$1.4 million in Q3 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 increases in domestic and international product registrations.

#### EBITDA and Adjusted EBITDA

EBITDA increased by \$6.4 million to \$14.8 million in Q3 2018 primarily due to the factors discussed above.

Adjusted EBITDA increased \$1.7 million to \$17.9 million and Adjusted EBITDA margin increased by 140

basis points to 21.5% in Q3 2018 mainly due to gross profit margin improvements in the Jamieson Brands segment partially offset by unfavourable sales mix and plant inefficiencies in the Strategic Partners segment due to delays in customer supplied raw materials in the quarter.

Adjusted EBITDA in the Jamieson Brands segment increased 17.6%, or \$2.5 million, to \$16.6 million and Adjusted EBITDA margin increased 260 basis points to 25.5% in Q3 2018 mainly driven by gross profit margin improvements partially offset by higher SG&A related to the timing of marketing activities.

Adjusted EBITDA in the Strategic Partners segment decreased \$0.8 million, to \$1.2 million and Adjusted EBITDA margin decreased to 6.8% in Q3 2018 mainly due to lower gross profit margins discussed above.

**Results of Operations — nine months ended September 30, 2018 and 2017**

The following table provides a summary of our results for the nine months ended September 30, 2018 and September 30, 2017.

	Nine months ended September 30		\$ Change	% Change
	2018	2017		
<i>(\$ in 000's, except as otherwise noted)</i>				
<b>Revenue</b>	<b>230,292</b>	<b>216,301</b>	<b>13,991</b>	<b>6.5%</b>
Cost of sales	150,991	142,349	8,642	6.1%
Gross profit	79,301	73,952	5,349	7.2%
Selling, general and administrative expenses	44,524	39,337	5,187	13.2%
Share-based compensation	1,789	4,613	(2,824)	(61.2%)
<b>Earnings from operations</b>	<b>32,988</b>	<b>30,002</b>	<b>2,986</b>	<b>10.0%</b>
<b>Operating margin</b>	<b>14.3%</b>	<b>13.9%</b>	<b>-</b>	<b>0.4%</b>
Foreign exchange loss	519	215	304	141.4%
Termination benefits and related costs	2,804	2,499	305	12.2%
Public offering costs	-	9,520	(9,520)	(100.0%)
Acquisition costs	-	2,443	(2,443)	(100.0%)
Other expenses	234	6,430	(6,196)	(96.4%)
Preferred share accretion	-	28,796	(28,796)	(100.0%)
Interest expense and other financing costs	6,610	2,593	4,017	154.9%
Income (loss) before income taxes	22,821	(22,494)	45,315	201.5%
Provision for income taxes	6,194	5,026	1,168	23.2%
<b>Net income (loss)</b>	<b>16,627</b>	<b>(27,520)</b>	<b>44,147</b>	<b>160.4%</b>
<b>Adjusted net income</b>	<b>21,516</b>	<b>17,833</b>	<b>3,683</b>	<b>20.7%</b>
<b>EBITDA</b>	<b>36,077</b>	<b>15,206</b>	<b>20,871</b>	<b>137.3%</b>
<b>Adjusted EBITDA</b>	<b>44,695</b>	<b>42,629</b>	<b>2,066</b>	<b>4.8%</b>

The following table provides a reconciliation of net income (loss) to EBITDA and Adjusted EBITDA for the nine months ended September 30, 2018 and September 30, 2017.

	Nine months ended September 30		\$ Change	% Change
	2018	2017		
<i>(\$ in 000's, except as otherwise noted)</i>				
<b>Net income (loss)</b>	<b>16,627</b>	<b>(27,520)</b>	<b>44,147</b>	<b>160.4%</b>
<i>Add:</i>				
Provision for income taxes	6,194	5,026	1,168	23.2%
Interest expense and other financing costs	6,610	2,593	4,017	154.9%
Preferred share accretion	-	28,796	(28,796)	(100.0%)
Depreciation of property, plant, and equipment	4,019	3,770	249	6.6%
Amortization of intangible assets	2,627	2,541	86	3.4%
<b>Earnings before interest, taxes, depreciation, and amortization (EBITDA)</b>	<b>36,077</b>	<b>15,206</b>	<b>20,871</b>	<b>137.3%</b>
<i>Add EBITDA adjustments:</i>				
Share-based compensation <sup>(1)</sup>	1,789	4,613	(2,824)	(61.2%)
Amortization of fair value adjustments <sup>(2)</sup>	-	1,694	(1,694)	(100.0%)
Foreign exchange loss	519	215	304	141.4%
Termination benefits and related costs <sup>(3)</sup>	2,804	2,499	305	12.2%
Acquisition costs	-	2,443	(2,443)	(100.0%)
Purchase consideration accounted for as compensation expense <sup>(4)</sup>	(1,066)	5,906	(6,972)	(118.0%)
Public offering costs	-	9,520	(9,520)	(100.0%)
International market expansion <sup>(5)</sup>	260	-	260	100.0%
Non-recurring business integration <sup>(6)</sup>	3,298	-	3,298	100.0%
Other <sup>(7)</sup>	1,014	533	481	90.2%
<b>Adjusted EBITDA</b>	<b>44,695</b>	<b>42,629</b>	<b>2,066</b>	<b>4.8%</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. In addition, included in Q3 2017 was a \$1.7 million expense pertaining to the accelerated vesting of certain options under the Legacy Option Plan in connection with the Initial Offering.
- (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 incurred in preparation of 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.

- (6) We incurred non-employee related expenses associated with the integration of our LVHS and Body Plus businesses including the consolidation of offices and supply chain activities.
- (7) In 2018, costs were mainly related to additional professional fee billings on our reorganization in relation to the Initial Offering, one-time expenses pertaining to the initial set-up of our e-commerce platform, and leasehold improvements and other expenses in relation to our head office relocation at the end of October 2018. In 2017, costs were mainly related to our labour agreement and other non-recurring consulting services in relation to process improvement projects and one-time studies commissioned to understand specific markets and consumer trends in helping us identify the most strategic markets for international expansion.

The following table provides a reconciliation of net income (loss) to Adjusted Net Income for the nine months ended September 30, 2018 and September 30, 2017.

(\$ in 000's, except as otherwise noted)	Nine months ended		\$ Change	% Change
	September 30			
	2018	2017		
<b>Net income (loss)</b>	<b>16,627</b>	<b>(27,520)</b>	<b>44,147</b>	<b>160.4%</b>
<i>Adjustments to net income (loss):</i>				
Share-based compensation <sup>(1)</sup>	152	3,193	(3,041)	(95.2%)
Amortization of fair value adjustments	-	1,694	(1,694)	(100.0%)
Amortization of deferred financing fee <sup>(2)</sup>	-	3,078	(3,078)	(100.0%)
Foreign exchange loss	519	215	304	141.4%
Termination benefits and related costs	2,804	2,499	305	12.2%
Acquisition costs	-	2,443	(2,443)	(100.0%)
Purchase consideration accounted for as compensation expense	(1,066)	5,906	(6,972)	(118.0%)
Public offering costs	-	9,520	(9,520)	(100.0%)
Net interest forgiveness	-	(11,001)	11,001	100.0%
Preferred share accretion	-	28,796	(28,796)	(100.0%)
International market expansion	260	-	260	100.0%
Non-recurring business integration	3,298	-	3,298	100.0%
Other	1,014	533	481	90.2%
Related tax effects	(2,092)	(1,523)	(569)	(37.4%)
<b>Adjusted net income</b>	<b>21,516</b>	<b>17,833</b>	<b>3,683</b>	<b>20.7%</b>

- (1) In 2018, this adjustment pertains to PSUs granted to certain employees on May 31, 2018 (refer to “Share-based compensation”). In 2017, this adjustment pertains to the 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.
- (2) 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 nine months ended September 30, 2018 and September 30, 2017.

*Jamieson Brands*

*(\$ in 000's, except as otherwise noted)*

For the nine months ended September 30,	<u>2018</u>	<u>2017</u>	<u>\$ Change</u>	<u>% Change</u>
Revenue	183,718	171,456	12,262	7.2%
Gross profit	72,158	64,452	7,706	12.0%
Gross profit margin	39.3%	37.6%	-	1.7%
Selling, general and administrative expenses	39,675	34,976	4,699	13.4%
Share-based compensation	1,789	4,613	(2,824)	(61.2%)
Earnings from operations	30,694	24,863	5,831	23.5%
Operating margin	16.7%	14.5%	-	2.2%
Adjusted EBITDA	40,431	36,526	3,905	10.7%
Adjusted EBITDA margin	22.0%	21.3%	-	0.7%

The following table provides a reconciliation from earnings from operations to Adjusted EBITDA for the nine months ended September 30, 2018 and September 30, 2017.

*(\$ in 000's, except as otherwise noted)*

For the nine months ended September 30,	<u>2018</u>	<u>2017</u>	<u>\$ Change</u>	<u>% Change</u>
Earnings from operations	30,694	24,863	5,831	23.5%
Depreciation of property, plant, and equipment	2,919	2,806	113	4.0%
Amortization of intangible assets	2,613	2,541	72	2.8%
Share-based compensation	1,789	4,613	(2,824)	(61.2%)
Amortization of fair value adjustments	-	1,694	(1,694)	(100.0%)
International market expansion	260	-	260	100.0%
Non-recurring business integration	1,370	-	1,370	100.0%
Other	786	9	777	8633.3%
Adjusted EBITDA	<u>40,431</u>	<u>36,526</u>	<u>3,905</u>	<u>10.7%</u>

*Strategic Partners*

*(\$ in 000's, except as otherwise noted)*

For the nine months ended September 30,	<u>2018</u>	<u>2017</u>	<u>\$ Change</u>	<u>% Change</u>
Revenue	46,574	44,845	1,729	3.9%
Gross profit	7,143	9,500	(2,357)	(24.8%)
Gross profit margin	15.3%	21.2%	-	(5.9%)
Selling, general and administrative expenses	4,849	4,361	488	11.2%
Earnings from operations	2,294	5,139	(2,845)	(55.4%)
Operating margin	4.9%	11.5%	-	(6.6%)
Adjusted EBITDA	4,264	6,103	(1,839)	(30.1%)
Adjusted EBITDA margin	9.2%	13.6%	-	(4.4%)

The following table provides a reconciliation from earnings from operations to Adjusted EBITDA for the nine months ended September 30, 2018 and September 30, 2017.

(\$ in 000's, except as otherwise noted)

For the nine months ended September 30,	<u>2018</u>	<u>2017</u>	<u>\$ Change</u>	<u>% Change</u>
Earnings from operations	2,294	5,139	(2,845)	(55.4%)
Depreciation of property, plant, and equipment	1,100	964	136	14.1%
Amortization of intangible assets	14	-	14	100.0%
Non-recurring business integration	818	-	818	100.0%
Other	38	-	38	100.0%
Adjusted EBITDA	<u>4,264</u>	<u>6,103</u>	<u>(1,839)</u>	<u>(30.1%)</u>

### Revenue

Revenue increased 6.5%, or \$14.0 million, to \$230.3 million in YTD 2018. Jamieson Brands increased by \$12.3 million or 7.2% growth while Strategic Partners revenues increased by \$1.7 million or 3.9%.

Revenue in the Jamieson Brands segment increased 7.2%, or \$12.3 million, to \$183.7 million in YTD 2018 driven by higher domestic Jamieson sales of \$7.7 million, international growth of \$4.6 million, and the acquisition impact of Body Plus of \$2.9 million, offset by lower Specialty Brands sales of \$2.9 million. Our domestic Jamieson sales increased by 6.4% driven by continued strong consumer demand, innovations and February price increase while our Specialty Brands declined 8.1% compared to prior year as sales were impacted by the integration of our sales team and delayed innovation. Our international Jamieson sales increased by 31.9% 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. For further discussion on factors contributing to Specialty Brands performance and remediation, please refer to the “*Outlook*” section.

Revenue in the Strategic Partners segment increased 3.9%, or \$1.7 million, to \$46.6 million in YTD 2018. The increase was driven by organic growth of \$0.6 million from expanded activity with existing strategic partners and revenue from our Sonoma acquisition of \$1.1 million.

### Gross profit

Gross profit increased by 7.2%, or \$5.3 million, to \$79.3 million in YTD 2018 while gross profit margin remained relatively consistent to the prior year at 34.4% for YTD 2018. The increase in gross profit is due to revenue growth from both segments and margin expansion in the Jamieson Brands segment as operating efficiencies were offset by unfavourable sales mix and reduced plant efficiencies in the Strategic Partners segment due to timing of production moving into the fourth quarter.

Gross profit in the Jamieson Brands segment increased \$7.7 million to \$72.2 million in YTD 2018. The increase was primarily driven by higher volumes, realized plant efficiencies 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. Normalizing for the impact of amortization of fair value inventory adjustments recorded in the prior year, gross profit margin increased by 70 basis points. Realized plant efficiencies were 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 \$2.4 million to \$7.1 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 first half of the prior year along with an increase to inventory reserves of \$0.7 million. Gross profit margin decreased by 590 basis points to 15.3% in YTD 2018 primarily due to customer mix discussed above and reduced plant efficiencies from timing and volume of production.

### Selling, general and administrative expenses

SG&A expenses increased by 13.2%, or \$5.2 million, to \$44.5 million in YTD 2018. In the Jamieson Brands segment, SG&A expenses increased by \$4.7 million due to the acquisition of Body Plus adding \$1.0 million in costs, \$1.2 million in public company costs, higher marketing expenses of \$1.5 million and \$2.4 million in non-recurring costs associated with business integration, professional fees and international market expansion partially offset by \$1.4 million related to lower compensation related costs. In the Strategic Partners segment, SG&A expenses increased by \$0.5 million in YTD 2018 due to the acquisition of Sonoma of \$0.2 million, compensation related costs of \$0.1 million and non-recurring costs associated with business integration of \$0.2 million.

### Share-based compensation

Share-based compensation decreased by \$2.8 million to \$1.8 million in YTD 2018 due to the amortization of shares related to the acquisition of LVHS in the prior year and the accelerated vesting of options as a result of the Initial Offering.

### Earnings from operations and operating margin

Earnings from operations increased 10.0%, or \$3.0 million, to \$33.0 million and operating margin was relatively consistent to the prior year at 14.3% in YTD 2018. Normalizing for the impact of fair value adjustments in the prior year, share-based compensation related to various vesting of options in the prior year and the impact of non-recurring SG&A of \$2.6 million in the current year, operating margin decreased by 70 basis points compared to 16.1% in YTD 2017. This change is due to the gross profit margin impact from customer mix in the Strategic Partners segment and planned SG&A increases related to public company costs in the period.

Earnings from operations in the Jamieson Brands segment increased 23.5%, or \$5.8 million, to \$30.7 million and operating margin increased 220 basis points to 16.7% in YTD 2018. Normalizing for the impact of fair value adjustments in the prior year, share-based compensation related to various vesting of options in the prior year and the impact of non-recurring SG&A of \$2.4 million in the current year, operating margin increased by 70 basis points compared to 17.4% in YTD 2017. The increase is due to favourable gross profit margin discussed above partially offset by planned SG&A increases related to public company costs.

Earnings from operations in the Strategic Partners segment decreased by \$2.8 million to \$2.3 million and operating margin decreased by 660 basis points to 4.9% in YTD 2018 as a result of a decrease in gross profit margin discussed above and higher SG&A expenses as a percentage of revenue.

### 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 increased by \$0.3 million to \$2.8 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 preparation of our Initial Offering. The costs for both years are mainly comprised of severance costs and salary continuance.

### Public offering costs

Public offering costs of \$9.5 million in YTD 2017 is related to our Initial Offering (refer to “*Initial Public 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 was comprised of non-recurring, non-employee related business integration and other consulting costs of \$1.3 million, offset by the reduction of consideration on the acquisition of Body Plus and Sonoma of \$1.1 million. Other expense of \$6.4 million in YTD 2017 was mainly related to deferred consideration in relation to the acquisitions of \$5.9 million, other non-recurring consulting services of \$0.3 million and costs relating to our labour agreement for \$0.2 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 was \$6.6 million in YTD 2018 compared to \$2.6 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 prior year included a write-off associated with the extinguishment of debt on January 31, 2017. Interest was also \$2.0 million lower than prior year based on lower interest rates and our levels of borrowing in the current period.

### Provision for income taxes

Provision for income taxes increased by \$1.2 million to \$6.2 million in YTD 2018. Our YTD 2018 effective tax rate of 27.1% 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 22.3% 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 \$0.2 million to \$4.0 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 and increases in domestic and international product registrations.

### EBITDA and Adjusted EBITDA

EBITDA increased by \$20.9 million to \$36.1 million in YTD 2018 primarily due to the factors discussed above.

Adjusted EBITDA increased by 4.8%, or \$2.1 million, to \$44.7 million and Adjusted EBITDA margin is slightly lower than prior year at 19.4% in YTD 2018 mainly due to gross profit margin improvements in Jamieson Brands offset by Strategic Partners margin affected by customer mix and timing of production volumes combined with higher planned SG&A related to public company costs.

Adjusted EBITDA in the Jamieson Brands segment increased 10.7%, or \$3.9 million, to \$40.4 million and Adjusted EBITDA margin increased 70 basis points to 22.0% in YTD 2018 mainly driven by gross profit margin improvements partially offset by higher planned SG&A increases related to marketing and public company costs.

Adjusted EBITDA in the Strategic Partners segment decreased \$1.8 million, to \$4.3 million and Adjusted EBITDA margin decreased by 440 basis points to 9.2% 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*”). 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.

	2018			2017				2016
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
<i>(\$ in 000's, except per share amounts)</i>								
<b>Revenue by segment</b>								
Branded Business	65,207	58,617	59,894	65,545	61,889	56,647	52,920	55,188
Strategic Partners	17,872	18,492	10,210	18,773	18,256	14,608	11,981	10,507
<b>Total revenue</b>	<b>83,079</b>	77,109	70,104	84,318	80,145	71,255	64,901	65,695
<b>Earnings from operations</b>	<b>12,690</b>	10,172	10,126	14,933	11,281	10,699	8,022	11,464
<b>Net income (loss)</b>	<b>7,213</b>	4,788	4,626	3,733	1,089	(6,958)	(21,651)	(18,722)
<b>Adjusted net income</b>	<b>8,853</b>	6,903	5,760	9,749	7,793	7,870	2,170	5,101
<b>EBITDA</b>	<b>14,771</b>	10,967	10,339	11,194	8,346	3,255	3,605	15,409
<b>Adjusted EBITDA</b>	<b>17,856</b>	14,153	12,686	18,848	16,134	15,071	11,424	14,727
<b>Basic, earnings (loss) per share</b>	<b>0.19</b>	0.13	0.12	0.10	(0.24)	(13.37)	(41.62)	(35.99)
<b>Diluted, earnings (loss) per share</b>	<b>0.18</b>	0.12	0.12	0.09	(0.24)	(13.37)	(41.62)	(35.99)
<b>Adjusted Diluted, earnings per share</b>	<b>0.22</b>	0.17	0.15	0.25	0.20	0.20	0.05	0.13

## Revenue

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

- available capacity when considering demand for Branded Products, resulting in less Strategic Partners revenue;
- 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.

### **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 September 30, 2018, the aggregate amount outstanding under the Credit Facilities was approximately \$174.4 million (\$44.0 million under the Revolving Credit Facility and \$130.4 million under the Term Loan Facility) and the weighted average interest rate on this facility was 4.2%.

For the three and nine months ended September 30, 2018, JLL made drawings of \$nil and \$nil, respectively, and debt repayments of \$2.4 million and \$7.3 million, respectively, applied against the term credit facility. For the three and nine months ended September 30, 2018, JLL made drawings of \$4.7 million and \$23.6 million, respectively, and debt repayments of \$4.7 million and \$9.6 million, respectively, applied against the revolving credit facility.

The Credit Facilities contain restrictive covenants customary for credit facilities of this nature, including the maintenance of a minimum interest coverage ratio and a maximum leverage ratio. JLL is in compliance with all covenants as at the date of this MD&A. Quarterly repayment on the original advance amount is 1.25% through to December 31, 2018 and 1.875% through to December 31, 2020 thereafter with all amounts outstanding due on maturity date.

*Analysis of Cash Flows — three months ended September 30, 2018 and 2017*

<i>(\$ in 000's, except as otherwise noted)</i>	<b>Three months ended</b>		<b>\$ Change</b>	<b>% Change</b>
	<b>September 30</b>			
	<b>2018</b>	<b>2017</b>		
Cash, beginning of period	<b>7,470</b>	<b>10,759</b>	<b>(3,289)</b>	<b>(30.6%)</b>
Cash flows from (used in):				
Operating activities	2,184	(10,528)	12,712	120.7%
Investing activities	(1,392)	(1,525)	133	8.7%
Financing activities	(5,447)	2,490	(7,937)	(318.8%)
Cash, end of period	<b>2,815</b>	<b>1,196</b>	<b>1,619</b>	<b>135.4%</b>

Cash Flows Generated from / Used in Operating Activities

In Q3 2018, cash flows generated from operating activities totalled \$2.2 million, compared to cash flows used of \$10.5 million for the same period in the prior year. The increase is mainly due to a reduction in cash used in working capital of \$12.0 million and cash generated in operating activities before working capital considerations of \$1.0 million, partially offset by \$0.3 million of deferred compensation associated with our acquisition of Body Plus and Sonoma. The change in working capital was impacted by the payment of public offering costs in the prior year. Net change in operating activities before working capital considerations was higher primarily due to increased earnings in the current year and the volume of public offering costs incurred in the prior year.

Cash Flows Used in Investing Activities

Cash flows used in investing activities in Q3 2018 totalled \$1.4 million compared to cash flows used of \$1.5 million for the same period in the prior year. This is mainly due to the acquisition of intangible assets pertaining to domestic and international product registrations of \$0.2 million offset by decreased expenditures on property, plant, and equipment of \$0.3 million.

Cash Flows Used in / Generated from Financing Activities

Cash flows used in financing activities in Q3 2018 totalled \$5.4 million compared to cash flows generated of \$2.5 million for the same period in the prior year. In Q3 2018, the Company paid \$3.4 million of dividends to common shareholders, made net repayments of \$2.4 million to our Credit Facilities and received funds of \$0.4 million on the exercise of stock options and the employee share purchase plan (“ESPP”). In Q3 2017, the Initial Offering generated net proceeds net of transaction costs to the Company of \$230.2 million. This was offset by net repayment of \$51.7 million to our Credit Facilities, 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, dividends on the then outstanding Class A to V and Class W preferred shares of \$9.6 million and \$3.0 million of dividends to common shareholders.

## *Analysis of Cash Flows — nine months ended September 30, 2018 and 2017*

<i>(\$ in 000's, except as otherwise noted)</i>	Nine months ended September 30		<b>\$ Change</b>	<b>% Change</b>
	<b>2018</b>	<b>2017</b>		
Cash, beginning of period	4,833	15,881	(11,048)	(69.6%)
Cash flows from (used in):				
Operating activities	5,572	651	4,921	755.9%
Investing activities	(6,926)	(85,430)	78,504	91.9%
Financing activities	(664)	70,094	(70,758)	(100.9%)
Cash, end of period	<b>2,815</b>	<b>1,196</b>	<b>1,619</b>	<b>135.4%</b>

### Cash Flows Generated from Operating Activities

For YTD 2018, cash flows generated from operating activities totalled \$5.6 million, compared to \$0.7 million for the same period in the prior year. The increase is mainly due to a reduction of cash used in working capital of \$2.4 million, cash generated in operating activities before working capital considerations of \$9.8 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 impacted by the payment of public offering costs in the prior year. Net change in operating activities before working capital considerations was higher primarily due to increased earnings in the current year and volume of public offering costs incurred in the prior year.

### Cash Flows Used in Investing Activities

Cash flows used in investing activities in YTD 2018 totalled \$6.9 million compared to \$85.4 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 prior year. Expenditures for property, plant, and equipment increased by \$3.9 million in YTD 2018 mainly due to expansion of our production capacities net of asset disposals. Slight increase in intangibles of \$0.1 million pertains to domestic and international product registrations.

### Cash Flows Used in / Generated from Financing Activities

Cash flows used in financing activities in YTD 2018 totalled \$0.7 million compared to cash flows generated of \$70.1 million for the same period in the prior year. In YTD 2018, we made net drawings of \$6.7 million from our Credit Facilities and \$2.1 million in the exercise of stock options and the ESPP, offset by the issuance of \$9.5 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 made net drawings of \$20.4 million from our Credit Facilities, and we received \$1.3 million from the issuance of redeemable preferred shares. 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 \$3.0 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 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 \$1.8 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 nine month period ended September 30, 2018, we have recognized a net gain of \$nil and \$1.1 million respectively, of deferred consideration (2017 - an expense of \$2.2 million and \$5.9 million) in the other expenses line in the unaudited condensed consolidated interim 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***

In addition to the repayments and drawings noted in the above “*Credit Facilities*” section, the Company has entered into a sublease agreement 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.

Other than the items noted above, there was no material change in our Company’s remaining contractual obligations and commitments from the annual MD&A as at and for the year ended December 31, 2017.

#### ***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, 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.

On May 31, 2018, we granted PSUs to certain employees to receive one common share of the Company for each PSU. The PSUs vest on the third anniversary of the grant date if the weighted average price of the shares on the Toronto Stock Exchange (“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.

We have determined that the above specified performance condition represents a market condition. Accordingly, we recognize the compensation cost over the 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 PSUs are settled in shares of the Company.

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

A summary of the status of the Company's outstanding share based awards and changes during the nine month period ended September 30, 2018 and year ended December 31, 2017 is presented below:

	<b>September 30, 2018</b>		December 31, 2017
	<b>Options</b>	<b>PSU's</b>	Options
	<b>(number of shares)</b>	<b>(number of shares)</b>	(number of shares)
Outstanding awards, beginning of period	<b>3,005,088</b>	-	2,505,059
Granted	<b>518,956</b>	<b>108,280</b>	1,043,662
Exercised	<b>(369,184)</b>	-	(261,233)
Forfeited	<b>(116,225)</b>	<b>(12,574)</b>	(282,400)
Outstanding awards, end of period	<b>3,038,635</b>	<b>95,706</b>	3,005,088
Awards exercisable, end of period	<b>2,134,656</b>	-	2,275,722

Our share-based compensation expense, for the three and nine months ended September 30, 2018 is \$1.0 million and \$1.8 million, respectively (2017 - \$2.4 million and \$3.1 million).

On November 6, 2018, we granted 27,000 RSUs to certain employees to receive one common share of the Company for each RSU. The RSUs vest at a rate of 1/3 per year on each anniversary date from the beginning of the vesting period.

### ***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.

## 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	369,183	2,927		
Employee stock purchase plan	13,007	281		
<b>As at September 30, 2018</b>	<b>38,122,311</b>	<b>238,116</b>		

  

	Common Shares			
	#	\$		
As at December 31, 2016	520,253	400		
Issued during the period (net)	15,554,755	233,534		
Exercise of options	206,229	-		
Exchange of Class A to V preferred shares	21,403,880	800		
As at September 30, 2017	37,685,117	234,734		

  

	Class A-V Preferred Shares		Class W Preferred Shares	
	#	\$	#	\$
As at December 31, 2016	21,314,440	197,901	-	-
Issued during the period	96,636	1,391	94,592,252	94,592
Accelerated vesting of preferred shares	-	11,527	-	-
Repurchased during the period	(7,196)	(50)	-	-
Redeemed during the period	(21,403,880)	(239,565)	(94,592,252)	(94,592)
Preferred share accretion during the period	-	28,796	-	-
As at September 30, 2017	-	-	-	-

As at September 30, 2018, the authorized share capital consisted of:

- a) 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.
- b) 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, 2017. 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.

### ***Trade merchandise allowances and other trade discounts***

We provide for estimated payments to customers based on various trade programs and contracts that often include payments that are contingent upon attainment of specified sales volumes. Significant estimates used to determine these liabilities include: (i) the projected level of sales volume for the relevant period; (ii) customer contracted rates for allowances, discounts, sales incentives, and rebates; and (iii) an amount based on the historical rate of returns. 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. To the extent that payments on trade discounts 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 the business combination 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 Company's unaudited condensed consolidated interim financial statements were prepared using the same accounting policies as described in Note 2 in the accompanying notes of our Company's annual audited financial statements for the year ended December 31, 2017, with the exception of recently adopted accounting standards discussed below.

## Recently adopted accounting standards

The following accounting policies are applicable for the three and nine months period ended September 30, 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:

<b>Financial Instrument</b>	<b>IAS 39 Measurement</b>	<b>IFRS 9 Measurement</b>
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)

### *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 were 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” (“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, 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, “Revenue”, 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:

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

There is no material impact on the unaudited condensed consolidated interim statements of operations and comprehensive income (loss) and the unaudited condensed consolidated interim statements of cash flows.

Our accounting policy for revenue recognition is described as follows.

Under IFRS 15, revenue is recognized when a customer obtains control of the goods or services. 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 products to strategic partners.

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. Payment is generally due 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.

Under IFRS 15, 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. The application of the constraint on variable consideration increases the amount of revenue that will be deferred.

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. We apply the expected value method estimating sales promotional incentives provided to customers based on historical spending patterns. Sales discounts and promotional incentives are recognized as reductions of revenue when control of the products purchased is transferred to the customers.

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. A provision for returns and sales provisions is recognized at the time the product is sold and recognized as a reduction to revenue.

As required for the unaudited condensed consolidated interim financial statements, we have disaggregated revenue recognized from contracts with customers. Please refer to Note 13 in our unaudited condensed consolidated interim financial statements for the disclosure on disaggregated revenue.

## **Future accounting standards issued but not yet effective**

The additional standards and interpretations that have been issued since our audited consolidated annual financial statements and accompanying notes for the year ended December 31, 2017 and the related annual MD&A, but are not yet effective, up to the date of issuance of this MD&A are disclosed below. We intend to adopt these standards when they become effective.

### ***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 new amendments on our unaudited condensed consolidated interim 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 plan 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. 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.

The cumulative effect of initially applying IFRS 16 is expected to be recognized as an adjustment to opening retained earnings as of the date of initial application.

We are in the process of completing our evaluation of IFRS 16, including quantifying the impact of the transitional adjustment of this new standard to be recorded on January 1, 2019.

### **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.

There have been no changes in the Company’s ICFR during the three month period ended September 30, 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 Disclosure Controls and Procedures or Internal Control over Financial Reporting, 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 2018, we expect revenue to range between \$332 million and \$337 million narrowed from our previous range of \$330 million - \$340 million. We are expanding our Jamieson Brands revenue disclosure to include specific trends for domestic Jamieson revenue and our domestic Specialty Brands revenue predominately sold within the health food channels. We continue to see favourable revenue trends in both our Jamieson Brands and Strategic Partners segments.

Revenue in the Jamieson Brands segment is expected to increase 6.5% to 8.5% compared with proforma revenue in 2017, which assumes twelve months of revenue for Body Plus. Key drivers of our volumes include the following:

- a) On a year-to-date basis, we have seen strong consumer sales of the domestic Jamieson branded products through our FDM customers. Organic volume growth combined with our February 2018 price increase has surpassed our baseline expectations for the year. Domestic Jamieson branded revenues are expected to grow between 7.5% and 9.0% when compared to fiscal 2017.
- b) We continue to grow our international branded shipments to China and with our existing distribution partners. In 2018, we have extended our international reach to new geographies including our initial shipments to India. International revenues are expected to increase 29% to 34% compared to fiscal 2017.
- c) Our new Orange-Hat registration combined with registrations in process and our existing Blue Hat registrations provide the opportunity for Jamieson to relaunch into Chinese domestic e-commerce and retail channels. We are in the process of re-establishing our previous Chinese retail relationships and have received numerous listings from our global retail partner that will further establish our presence in China in 2019. We expect initial shipments of these orders to be placed prior to the end of fiscal 2018 to be filled in late 2018 or early 2019.

- d) Our Specialty Brands continue to underperform as softness in the first six months has accelerated in the third quarter. Specialty Brands revenues are expected to decline between 5% and 7% when compared to proforma revenue in fiscal 2017. The following factors have impacted Specialty Brands revenues in 2018:
- i. The timing and magnitude of our innovation;
  - ii. Challenges integrating the LVHS and Body Plus field sales forces including depth of new product and factors associated with territory realignment; and
  - iii. Poor overall communication and execution within our entire Specialty Brands operation.

All of these challenges have been addressed, as we have taken the following steps to ensure that our Specialty Brands revenues return to growth in 2019:

- i. Our largest 2018 innovations (Progressive Elite Multivitamin and Progressive Probiotic) will be available for launch during the fourth quarter. The sell-in process will begin in November 2018 and continue throughout 2019; initial innovation shipments are expected to be realized in December 2018. In order to improve the timing and execution surrounding innovations, we have added technical and functional resources dedicated to this initiative. With a renewed innovation culture within our Specialty Brands, we are anticipating an annual innovation growth target of 5%.
- ii. During the first quarter the Company merged the former Body Plus and LVHS sales teams. The integration process included a 100% territory realignment and the addition of two to five brands to each sales person's portfolio. Initial brand training did not provide the depth of understanding to allow our field sales team to competently market new brands to new or existing customers. Territory realignment and delayed territory performance reporting impacted management's ability to detect and drive accountability for brand performance by territory. In determining these factors, we have transitioned field sales management to an experienced Jamieson field sales professional and we are in the process of implementing tablet based field sales productivity and reporting tools. Field sales management transition has been completed and the new tablet productivity tools are rolling out in the fourth quarter, which we expect to lead to improved performance in the fourth quarter and throughout 2019.
- iii. We did not execute our 2018 strategic objectives in Specialty Brands as expected, including the planning and execution of our innovation process and orderly integration of our LVHS and Body Plus field sales teams. As of October 2018, we have transitioned the management of our health food business to Mike Pilato, former President of Clorox Canada. Mike brings cross functional expertise in sales, marketing and finance as well as a deep understanding of consumer products and health food. Mike's leadership and commercial focus will position our Specialty Brands for success in 2019.

Revenue in the Strategic Partners segment is expected to grow by approximately 20% compared with proforma revenue in 2017 assuming twelve months of revenue for Sonoma. This increase is driven by expanded product lines with existing customers and strong consumer demand for our customer branded products.

We have updated our Adjusted EBITDA guidance to \$67.0 million - \$68.0 million, narrowed from our previous range of \$67.0 to \$69.0 million, which reflects the revenue guidance discussed, investments in SG&A to accelerate international growth opportunities, especially in China, and to build our e-commerce infrastructure to drive growth through both internal and third party platforms, as well as the margin impact of slightly lower Specialty Brands revenues. We have updated our Adjusted Diluted Earnings per Share guidance to \$0.85 - \$0.86, narrowed from our previous range of \$0.83 to \$0.87, which takes into consideration the aforementioned factors combined with lower than expected benchmark interest rates and share-based compensation.

We also expect to incur certain non-recurring expenses related to the integration of our existing Specialty Brands businesses including the consolidation of our separate supply chain activities as well as one-time costs associated with international market expansion. The expected Adjusted EBITDA range for fiscal 2018 referred to

above reflects the adding back of these expenses, which will impact net income. Our Adjusted Net Income for fiscal 2018 will also reflect the adding back of such expenses on a tax-effected basis.

The foregoing financial outlook is based on the following assumptions for fiscal 2018, amongst others:

- the current exchange rate between the U.S. and Canadian dollar whereby U.S.\$1.00 = \$1.30; the increase in U.S. dollar is expected to positively impact international sales in segments offset by an equal increase in input cost with minimal impact on gross profit as a result of our U.S. dollar hedging strategy
- interest rates of 4.5% on borrowing plus our deferred financing fees; and
- income tax rates of approximately 28% based on non-deductible stock compensation expenses and compensation costs related to the acquisition of Body Plus and Sonoma
- a fully diluted share count of approximately 39.9 million shares

The description of our 2018 financial outlook in this MD&A 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 2018 outlook 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 38,127,352 Common Shares and no Preference Shares are issued and outstanding. As of the date hereof, the Company had 3,038,635 options, 95,706 PSUs and 27,000 RSUs outstanding.

### **Additional Information**

Additional information relating to our Company, including our most recent 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.