



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

For the three and six months ended June 30, 2018

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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 August 8, 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 six months ended June 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 six months ended June 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 "Q2 2018" are to our fiscal quarter ended June 30, 2018 and to "Q2 2017" are to our fiscal quarter ended June 30, 2017. All references in this MD&A to "YTD 2018" are to our six-month period ended June 30, 2018 and to "YTD 2017" are to our six-month period ended June 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. 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. 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 depend on a number of factors that present significant opportunities for us. These factors are also subject to a number of inherent risks and challenges, some of which are discussed below and referred to under “*Risk Factors*”.

Our 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 Brands 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 Brands 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		Six months ended	
	June 30		June 30	
	2018	2017	2018	2017
<i>(\$ in 000's, except share and per share amounts)</i>				
Revenue	77,109	71,255	147,213	136,156
Cost of sales	50,776	45,935	95,510	88,627
Gross profit	26,333	25,320	51,703	47,529
Selling, general and administrative expenses	15,806	13,183	30,623	26,624
Share-based compensation	355	1,438	782	2,184
Earnings from operations	10,172	10,699	20,298	18,721
Operating margin	13.2%	15.0%	13.8%	13.7%
Foreign exchange loss	192	186	392	418
Termination benefits and related costs	1,046	-	2,778	2,499
Public offering costs	-	6,653	-	6,884
Acquisition costs	-	446	-	2,303
Other expenses	159	2,221	147	3,924
Preferred share accretion	-	13,411	-	28,796
Interest expense (income) and other financing costs	2,185	(8,084)	4,361	228
Income (loss) before income taxes	6,590	(4,134)	12,620	(26,331)
Provision for income taxes	1,802	2,824	3,206	2,278
Net income (loss)	4,788	(6,958)	9,414	(28,609)
Adjusted net income	6,903	7,870	12,663	10,040
EBITDA	10,967	3,255	21,306	6,860
Adjusted EBITDA	14,153	15,071	26,839	26,495
Weighted average number of shares				
Basic	37,954,280	520,253	37,893,060	520,253
Diluted	39,782,841	520,253	39,721,571	520,253
Adjusted Diluted	39,782,841	39,782,841	39,782,841	39,782,841
Earnings per share attributable to common shareholders:				
Basic, earnings (loss) per share	0.13	(13.37)	0.25	(54.99)
Diluted, earnings (loss) per share	0.12	(13.37)	0.24	(54.99)
Adjusted Diluted, earnings per share	0.17	0.20	0.32	0.25

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

<i>(\$ in 000's)</i>	<u>As at June 30, 2018</u>	<u>As at December 31, 2017</u>
Selected Consolidated Financial Position Data:		
Total assets	519,663	512,555
Total non-current liabilities	216,851	210,012

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

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

<i>(\$ in 000's)</i>	Three months ended June 30		\$ Change	% Change
	<u>2018</u>	<u>2017</u>		
Revenue	77,109	71,255	5,854	8.2%
Cost of sales	50,776	45,935	4,841	10.5%
Gross profit	26,333	25,320	1,013	4.0%
Selling, general and administrative expenses	15,806	13,183	2,623	19.9%
Share-based compensation	355	1,438	(1,083)	(75.3%)
Earnings from operations	10,172	10,699	(527)	(4.9%)
Operating margin	13.2%	15.0%	-	(1.8%)
Foreign exchange loss	192	186	6	3.2%
Termination benefits and related costs	1,046	-	1,046	100.0%
Public offering costs	-	6,653	(6,653)	(100.0%)
Acquisition costs	-	446	(446)	(100.0%)
Other expenses	159	2,221	(2,062)	(92.8%)
Preferred share accretion	-	13,411	(13,411)	(100.0%)
Interest expense (income) and other financing costs	2,185	(8,084)	10,269	127.0%
Income (loss) before income taxes	6,590	(4,134)	10,724	259.4%
Provision for income taxes	1,802	2,824	(1,022)	(36.2%)
Net income (loss)	4,788	(6,958)	11,746	168.8%
Adjusted net income	6,903	7,870	(967)	(12.3%)
EBITDA	10,967	3,255	7,712	236.9%
Adjusted EBITDA	14,153	15,071	(918)	(6.1%)

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

(\$ in 000's)	Three months ended		\$ Change	% Change
	2018	2017		
Net income (loss)	4,788	(6,958)	11,746	168.8%
<i>Add:</i>				
Provision for income taxes	1,802	2,824	(1,022)	(36.2%)
Interest expense (income) and other financing costs	2,185	(8,084)	10,269	127.0%
Preferred share accretion	-	13,411	(13,411)	(100.0%)
Depreciation of property, plant, and equipment	1,315	1,216	99	8.1%
Amortization of intangible assets	877	846	31	3.7%
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	10,967	3,255	7,712	236.9%
<i>Add EBITDA adjustments:</i>				
Share-based compensation ⁽¹⁾	355	1,438	(1,083)	(75.3%)
Amortization of fair value adjustments ⁽²⁾	-	847	(847)	(100.0%)
Foreign exchange loss	192	186	6	3.2%
Termination benefits and related costs ⁽³⁾	1,046	-	1,046	100.0%
Acquisition costs	-	446	(446)	(100.0%)
Purchase consideration accounted for as compensation expense ⁽⁴⁾	-	2,215	(2,215)	(100.0%)
Public offering costs	-	6,653	(6,653)	(100.0%)
International market expansion ⁽⁵⁾	137	-	137	100.0%
Non-recurring business integration ⁽⁶⁾	1,125	-	1,125	100.0%
Other ⁽⁷⁾	331	31	300	967.7%
Adjusted EBITDA	14,153	15,071	(918)	(6.1%)

- (1) In Q2 2018, the Company's share-based compensation expense pertains to the LTIP (refer to "Share-based compensation"). In Q2 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.
- (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) Costs in Q2 2018 were mainly comprised of severance costs and salary continuance primarily related to the integration of our LVHS business with Body Plus, which includes the closure of our two west coast health food distribution facilities and the consolidation of health food supply chain activities.
- (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 payable by July 2018.
- (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 health food businesses including the consolidation of offices and supply chain activities.
- (7) In Q2 2018, costs were mainly related to additional professional fee billings on our reorganization in relation to the Initial Offering.

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

(\$ in 000's)	Three months ended		\$ Change	% Change
	June 30			
	2018	2017		
Net income (loss)	4,788	(6,958)	11,746	168.8%
<i>Adjustments to net income (loss):</i>				
Share-based compensation ⁽¹⁾	38	1,044	(1,006)	(96.4%)
Amortization of fair value adjustments	-	847	(847)	(100.0%)
Foreign exchange loss	192	186	6	3.2%
Termination benefits and related costs	1,046	-	1,046	100.0%
Acquisition costs	-	446	(446)	(100.0%)
Purchase consideration accounted for as compensation expense	-	2,215	(2,215)	(100.0%)
Public offering costs	-	6,653	(6,653)	(100.0%)
Net interest forgiveness	-	(11,001)	11,001	100.0%
Preferred share accretion	-	13,411	(13,411)	(100.0%)
International market expansion	137	-	137	100.0%
Non-recurring business integration	1,125	-	1,125	100.0%
Other	331	31	300	967.7%
Related tax effects	(754)	996	(1,750)	(175.7%)
Adjusted net income	6,903	7,870	(967)	(12.3%)

- (1) In 2018, this adjustment pertains to performance based Restricted Share Units ("RSUs") granted to certain employees on May 31, 2018 (refer to "Share-based compensation"). In 2017, this adjustment is in relation to the vesting of certain shares issued to the former owner in relation to JLL's acquisition of LVHS on June 12, 2014.

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

Jamieson Brands

(\$ in 000's)				
For the three months ended June 30,	2018	2017	\$ Change	% Change
Revenue	58,617	56,647	1,970	3.5%
Gross profit	23,408	21,806	1,602	7.3%
Gross profit margin	39.9%	38.5%	-	1.4%
Selling, general and administrative expenses	14,061	11,766	2,295	19.5%
Share-based compensation	355	1,438	(1,083)	(75.3%)
Earnings from operations	8,992	8,602	390	4.5%
Operating margin	15.3%	15.2%	-	0.1%
Adjusted EBITDA	12,434	12,663	(229)	(1.8%)
Adjusted EBITDA margin	21.2%	22.4%	-	(1.2%)

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

(\$ in 000's)

For the three months ended June 30,	<u>2018</u>	<u>2017</u>	<u>\$ Change</u>	<u>% Change</u>
Earnings from operations	8,992	8,602	390	4.5%
Depreciation of property, plant, and equipment	944	905	39	4.3%
Amortization of intangible assets	869	846	23	2.7%
Share-based compensation	355	1,438	(1,083)	(75.3%)
Amortization of fair value adjustments	-	847	(847)	(100.0%)
Non-recurring business integration	838	-	838	100.0%
International market expansion	137	-	137	100.0%
Other	299	25	274	1096.0%
Adjusted EBITDA	<u>12,434</u>	<u>12,663</u>	<u>(229)</u>	<u>(1.8%)</u>

Strategic Partners

(\$ in 000's)

For the three months ended June 30,	<u>2018</u>	<u>2017</u>	<u>\$ Change</u>	<u>% Change</u>
Revenue	18,492	14,608	3,884	26.6%
Gross profit	2,925	3,514	(589)	(16.8%)
Gross profit margin	15.8%	24.1%	-	(8.3%)
Selling, general and administrative expenses	1,745	1,417	328	23.1%
Earnings from operations	1,180	2,097	(917)	(43.7%)
Operating margin	6.4%	14.4%	-	(8.0%)
Adjusted EBITDA	1,719	2,408	(689)	(28.6%)
Adjusted EBITDA margin	9.3%	16.5%	-	(7.2%)

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

(\$ in 000's)

For the three months ended June 30,	<u>2018</u>	<u>2017</u>	<u>\$ Change</u>	<u>% Change</u>
Earnings from operations	1,180	2,097	(917)	(43.7%)
Depreciation of property, plant, and equipment	371	311	60	19.3%
Amortization of intangible assets	8	-	8	100.0%
Non-recurring business integration	138	-	138	100.0%
Other	22	-	22	100.0%
Adjusted EBITDA	<u>1,719</u>	<u>2,408</u>	<u>(689)</u>	<u>(28.6%)</u>

Revenue

Revenue increased 8.2%, or \$5.9 million, to \$77.1 million in Q2 2018. Jamieson Brands increased by \$2.0 million or 3.5% growth while Strategic Partners revenues increased by \$3.9 million or 26.6% growth.

Revenue in the Jamieson Brands segment increased 3.5%, or \$2.0 million, to \$58.6 million in Q2 2018 driven primarily by international growth of \$3.6 million, partially offset by lower domestic Branded volumes of \$1.6 million impacted by the timing of shipments and continued integration of our Health Food businesses. Our international revenues increased by 79.2% year over year, led by strong growth in Asia from both new and existing markets along with favourable foreign exchange. Domestic Jamieson branded volumes were impacted by timing as consumer purchases have outpaced shipments which has led to a decline in retailer inventories. We continue to be confident in our full year growth projections as year-to-date consumer purchases from our food, drug, and mass ("FDM") partners are tracking ahead of our expected growth versus prior year. Health Food branded volumes are improving, but continue to be below our expectation impacted by integration of our sales team along with delayed timing of innovation.

Revenue in the Strategic Partners segment increased 26.6%, or \$3.9 million, to \$18.5 million in Q2 2018. The increase was mainly driven by expanded activity from existing strategic partners, partially offset by the transition of another partner which has brought volume in-house.

Gross profit

Gross profit increased by 4.0%, or \$1.0 million, to \$26.3 million in Q2 2018 while gross profit margin decreased 130 basis points to 34.2% in Q2 2018. The increase in gross profit is due to revenue growth from both segments while the decrease in gross profit margin is due to sales mix impact of Strategic Partner volumes in the quarter.

Gross profit in the Jamieson Brands segment increased \$1.6 million to \$23.4 million in Q2 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 \$0.8 million. Gross profit margin increased by 140 basis points to 39.9% in Q2 2018. Normalizing for the impact of amortization of fair value inventory adjustments recorded in the prior year, gross profit margin was consistent with prior year. Realized plant efficiencies in Q2 were offset by investment in supply chain and operations to drive long-term volume growth.

Gross profit in the Strategic Partners segment decreased \$0.6 million to \$2.9 million in Q2 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. This change, among other considerations, is expected to reduce our full year 2018 Adjusted EBITDA margin for Strategic Partners by approximately 300 basis points compared to 2017 and has been factored into our annual guidance (refer to “*Outlook*”). Gross profit margin decreased by 830 basis points to 15.8% in Q2 2018 due primarily to product mix discussed above.

Selling, general and administrative expenses

SG&A expenses increased by 19.9%, or \$2.6 million, to \$15.8 million in Q2 2018. In the Jamieson Brands segment, SG&A expenses were \$2.3 million higher resulting from \$0.6 million in higher costs associated with being a public company, \$0.5 million increase in marketing to support the launch of our Jamieson Essentials plus Protein, and \$1.2 million in non-recurring costs associated with the health food business integration, professional fees and international market expansion. In the Strategic Partners segment, SG&A expenses increased by \$0.3 million due to \$0.1 million in higher compensation related costs and \$0.2 million in non-recurring costs associated with the Sonoma business integration.

Share-based compensation

Share-based compensation decreased by \$1.1 million to \$0.4 million in Q2 2018 primarily due to the Q2 2017 amortization of shares in escrow related to the acquisition of the assets of LVHS which became fully vested in the prior year.

Earnings from operations and operating margin

Earnings from operations decreased 4.9%, or \$0.5 million, to \$10.2 million and operating margin decreased 180 basis points to 13.2% in Q2 2018. Normalizing for the impact of amortization of fair value inventory adjustments in the prior year, share-based compensation related to the vesting of options in the prior year and the impact of non-recurring SG&A of \$1.4 million in the current year, operating margin decreased by 260 basis points compared to 17.7% in Q2 2017. This change is due to the gross profit margin impact discussed above and planned SG&A increases related to public company costs and timing of marketing activities in the period.

Earnings from operations in the Jamieson Brands segment increased 4.5%, or \$0.4 million, to \$9.0 million and operating margin is consistent to prior year at 15.3% in Q2 2018. Normalizing for the impact of amortization of fair value inventory adjustments in the prior year, share-based compensation related to the vesting of options in the prior year and the impact of non-recurring SG&A of \$1.2 million in the current year, operating margin decreased by 100 basis points compared to 18.5% in Q2 2017. This change is due to planned SG&A increases related to public company costs and marketing activities and the gross profit margin impact discussed above.

Earnings from operations in the Strategic Partners segment decreased by \$0.9 million to \$1.2 million in Q2 2018 and operating margin decreased by 800 basis points to 6.4% in Q2 2018 as a result of a decrease in gross profit margin discussed above, partially offset by lower SG&A expenses as a percentage of revenue.

Foreign exchange loss

Foreign exchange loss in Q2 2018 is relatively consistent to the prior year. 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 of \$1.0 million in Q2 2018 is related to the integration of our health food businesses consisting mainly of our Body Plus and LVHS businesses, which began in Q1 2018.

Public offering costs

Public offering costs of \$6.7 million in Q2 2017 is related to our Initial Offering (refer to “*Initial Public Offering*”).

Acquisition costs

Acquisition costs of \$0.4 million in Q2 2017 were related to the January 31, 2017 acquisition of Body Plus and Sonoma.

Other expenses

Other expenses decreased by \$2.1 million to \$0.2 million in Q2 2018. In Q2 2017, other expenses were mainly comprised of deferred consideration in relation to the acquisition of Body Plus and Sonoma.

Preferred share accretion

Preferred share accretion was \$nil in Q2 2018 compared to \$13.4 million of expense in Q2 2017. The charge in the prior year was tied to the change in the underlying fair value of our 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 (income) and other financing costs

Interest expense and other financing costs was \$2.2 million in Q2 2018 compared to interest income of \$8.1 million in Q2 2017. The amount reported in 2017 included the discharge of our note payable to Finco in Q2 2017 which resulted in net interest forgiveness of \$11.0 million. Interest expense in Q2 2018 was \$0.7 million lower than prior year interest expense based on our levels of borrowing in the current quarter.

Provision for income taxes

Provision for income taxes decreased by \$1.0 million to \$1.8 million in Q2 2018. Our Q2 2018 effective tax rate of 27.3% was impacted by non-deductible share-based compensation. Our Q2 2017 effective tax rate of 68.3% was significantly impacted by expenses such as share-based compensation, purchase consideration accounted for as compensation expense, and preferred share accretion which are not deductible for tax purposes.

Depreciation

Depreciation expense increased by \$0.1 million to \$1.3 million in Q2 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 increases in domestic and international product registrations.

EBITDA and Adjusted EBITDA

EBITDA increased by \$7.7 million to \$11.0 million in Q2 2018 primarily due to the factors discussed above.

Adjusted EBITDA decreased \$0.9 million to \$14.2 million and Adjusted EBITDA margin decreased by 280 basis points to 18.4% in Q2 2018 mainly due to the sales mix impact of strategic partner volumes affecting gross profit margin and higher planned SG&A related to public company costs and timing of marketing activities.

Adjusted EBITDA in the Jamieson Brands segment decreased 1.8%, or \$0.2 million, to \$12.4 million and Adjusted EBITDA margin decreased 120 basis points to 21.2% in Q2 2018 due to higher SG&A related to public company costs and the timing of marketing activities.

Adjusted EBITDA in the Strategic Partners segment decreased \$0.7 million, to \$1.7 million and Adjusted EBITDA margin decreased to 9.3% in Q2 2018 mainly due to lower gross profit margins discussed above.

Results of Operations — six months ended June 30, 2018 and 2017

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

(\$ in 000's)	Six months ended June 30		\$ Change	% Change
	2018	2017		
Revenue	147,213	136,156	11,057	8.1%
Cost of sales	95,510	88,627	6,883	7.8%
Gross profit	51,703	47,529	4,174	8.8%
Selling, general and administrative expenses	30,623	26,624	3,999	15.0%
Share-based compensation	782	2,184	(1,402)	(64.2%)
Earnings from operations	20,298	18,721	1,577	8.4%
Operating margin	13.8%	13.7%	-	0.1%
Foreign exchange loss	392	418	(26)	(6.2%)
Termination benefits and related costs	2,778	2,499	279	11.2%
Public offering costs	-	6,884	(6,884)	(100.0%)
Acquisition costs	-	2,303	(2,303)	(100.0%)
Other expenses	147	3,924	(3,777)	(96.3%)
Preferred share accretion	-	28,796	(28,796)	(100.0%)
Interest expense and other financing costs	4,361	228	4,133	1812.7%
Income (loss) before income taxes	12,620	(26,331)	38,951	147.9%
Provision for income taxes	3,206	2,278	928	40.7%
Net income (loss)	9,414	(28,609)	38,023	132.9%
Adjusted net income	12,663	10,040	2,623	26.1%
EBITDA	21,306	6,860	14,446	210.6%
Adjusted EBITDA	26,839	26,495	344	1.3%

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

(\$ in 000's)	Six months ended June 30		\$ Change	% Change
	2018	2017		
Net income (loss)	9,414	(28,609)	38,023	132.9%
<i>Add:</i>				
Provision for income taxes	3,206	2,278	928	40.7%
Interest expense and other financing costs	4,361	228	4,133	1812.7%
Preferred share accretion	-	28,796	(28,796)	(100.0%)
Depreciation of property, plant, and equipment	2,578	2,487	91	3.7%
Amortization of intangible assets	1,747	1,680	67	4.0%
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	21,306	6,860	14,446	210.6%
<i>Add EBITDA adjustments:</i>				
Share-based compensation ⁽¹⁾	782	2,184	(1,402)	(64.2%)
Amortization of fair value adjustments ⁽²⁾	-	1,412	(1,412)	(100.0%)
Foreign exchange loss	392	418	(26)	(6.2%)
Termination benefits and related costs ⁽³⁾	2,778	2,499	279	11.2%
Acquisition costs	-	2,303	(2,303)	(100.0%)
Purchase consideration accounted for as compensation expense ⁽⁴⁾	(1,066)	3,691	(4,757)	(128.9%)
Public offering costs	-	6,884	(6,884)	(100.0%)
International market expansion ⁽⁵⁾	137	-	137	100.0%
Non-recurring business integration ⁽⁶⁾	2,086	-	2,086	100.0%
Other ⁽⁷⁾	424	244	180	73.8%
Adjusted EBITDA	26,839	26,495	344	1.3%

- (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.
- (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 health food distribution facilities and the consolidation of health food 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 payable by 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 health food 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 and in 2017, costs were mainly related to our labour agreement.

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

(\$ in 000's)	Six months ended June 30		\$ Change	% Change
	2018	2017		
Net income (loss)	9,414	(28,609)	38,023	132.9%
<i>Adjustments to net income (loss):</i>				
Share-based compensation ⁽¹⁾	38	1,485	(1,447)	(97.4%)
Amortization of fair value adjustments	-	1,412	(1,412)	(100.0%)
Amortization of deferred financing fee ⁽²⁾	-	3,078	(3,078)	(100.0%)
Foreign exchange loss	392	418	(26)	(6.2%)
Termination benefits and related costs	2,778	2,499	279	11.2%
Acquisition costs	-	2,303	(2,303)	(100.0%)
Purchase consideration accounted for as compensation expense	(1,066)	3,691	(4,757)	(128.9%)
Public offering costs	-	6,884	(6,884)	(100.0%)
Net interest forgiveness	-	(11,001)	11,001	100.0%
Preferred share accretion	-	28,796	(28,796)	(100.0%)
International market expansion	137	-	137	100.0%
Non-recurring business integration	2,086	-	2,086	100.0%
Other	424	244	180	73.8%
Related tax effects	(1,540)	(1,160)	(380)	(32.8%)
Adjusted net income	12,663	10,040	2,623	26.1%

- (1) In 2018, this adjustment pertains to performance based RSUs granted to certain employees on May 31, 2018 (refer to “*Share-based compensation*”). In 2017, this adjustment is in relation to the vesting of certain shares issued to the former owner in relation to JLL’s acquisition of LVHS on June 12, 2014.
- (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 six months ended June 30, 2018 and June 30, 2017.

Jamieson Brands

(\$ in 000's)	For the six months ended June 30,		\$ Change	% Change
	2018	2017		
Revenue	118,511	109,567	8,944	8.2%
Gross profit	46,216	41,189	5,027	12.2%
Gross profit margin	39.0%	37.6%	-	1.4%
Selling, general and administrative expenses	27,306	23,770	3,536	14.9%
Share-based compensation	782	2,184	(1,402)	(64.2%)
Earnings from operations	18,128	15,235	2,893	19.0%
Operating margin	15.3%	13.9%	-	1.4%
Adjusted EBITDA	23,786	22,369	1,417	6.3%
Adjusted EBITDA margin	20.1%	20.4%	-	(0.3%)

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

(\$ in 000's)

For the six months ended June 30,	2018	2017	\$ Change	% Change
Earnings from operations	18,128	15,235	2,893	19.0%
Depreciation of property, plant, and equipment	1,863	1,847	16	0.9%
Amortization of intangible assets	1,739	1,680	59	3.5%
Share-based compensation	782	2,184	(1,402)	(64.2%)
Amortization of fair value adjustments	-	1,412	(1,412)	(100.0%)
Non-recurring business integration	1,799	-	1,799	100.0%
International market expansion	137	-	137	100.0%
Other	(662)	11	(673)	(6118.2%)
Adjusted EBITDA	23,786	22,369	1,417	6.3%

Strategic Partners

(\$ in 000's)

For the six months ended June 30,	2018	2017	\$ Change	% Change
Revenue	28,702	26,589	2,113	7.9%
Gross profit	5,487	6,340	(853)	(13.5%)
Gross profit margin	19.1%	23.8%	-	(4.7%)
Selling, general and administrative expenses	3,317	2,854	463	16.2%
Earnings from operations	2,170	3,486	(1,316)	(37.8%)
Operating margin	7.6%	13.1%	-	(5.5%)
Adjusted EBITDA	3,053	4,126	(1,073)	(26.0%)
Adjusted EBITDA margin	10.6%	15.5%	-	(4.9%)

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

(\$ in 000's)

For the six months ended June 30,	2018	2017	\$ Change	% Change
Earnings from operations	2,170	3,486	(1,316)	(37.8%)
Depreciation of property, plant, and equipment	715	640	75	11.7%
Amortization of intangible assets	8	-	8	100.0%
Non-recurring business integration	138	-	138	100.0%
Other	22	-	22	100.0%
Adjusted EBITDA	3,053	4,126	(1,073)	(26.0%)

Revenue

Revenue increased 8.1%, or \$11.1 million, to \$147.2 million in YTD 2018. Jamieson Brands increased by \$8.9 million or 8.2% growth while Strategic Partners revenues increased by \$2.1 million or 7.9% growth.

Revenue in the Jamieson Brands segment increased 8.2%, or \$8.9 million, to \$118.5 million in YTD 2018 due to organic growth of \$6.0 million or 5.4% in our domestic and international brands and \$2.9 million or a 2.8% increase from the acquisition of Body Plus. Our domestic branded business increased by \$2.3 million driven by innovation, strong consumer demand and increased pricing but partially offset by disruptions from the integration of our legacy Body Plus and LVHS salesforces. Jamieson branded shipments increased by \$2.9 million or 3.7% mainly due to increase in consumer demand, including year over year increase in revenue from innovations of \$1.0 million driven by distribution of our new Jamieson Essentials plus Protein, partially offset by timing as consumer purchases have outpaced shipments which has led to a decline in retailer inventories. Our Health Food branded sales continues to be impacted by the integration of our sales team and delayed innovation. Our international branded business

increased \$3.7 million from prior year as we penetrate into new areas within Europe and expand in both new and existing markets within Asia.

Revenue in the Strategic Partners segment increased 7.9%, or \$2.1 million, to \$28.7 million in YTD 2018. The increase was mainly driven by expanded activity from existing strategic partners, partially offset by the transition away from another partner which has brought volume in-house.

Gross profit

Gross profit increased by 8.8%, or \$4.2 million, to \$51.7 million in YTD 2018 while gross profit margin increased 20 basis points to 35.1% in YTD 2018. The increase in gross profit is due to revenue growth from both segments while gross profit margin was impacted by sales mix in our Strategic Partners segment.

Gross profit in the Jamieson Brands segment increased \$5.0 million to \$46.2 million in YTD 2018. The increase was primarily driven by higher volumes including both acquired revenue and organic growth. Gross profit margin increased by 140 basis points to 39.0% in YTD 2018 due to realized plant efficiencies and the impact of amortization of fair value inventory adjustments related to the Body Plus acquisition in 2017. Rising raw material prices impacting cost of sales were offset by higher selling prices. Normalizing for the impact of amortization of fair value adjustments recorded in the prior year, gross profit margin was consistent with prior year. Realized plant efficiencies were offset by investment in supply chain and operations in the current year to drive long-term volume growth.

Gross profit in the Strategic Partners segment decreased \$0.9 million to \$5.5 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. This change, among other considerations, is expected to reduce our full year 2018 Adjusted EBITDA margin for Strategic Partners by approximately 300 basis points compared to 2017 and has been factored into our annual guidance (refer to “*Outlook*”). Gross profit margin decreased by 470 basis points to 19.1% in YTD 2018 due primarily to product mix discussed above.

Selling, general and administrative expenses

SG&A expenses increased by 15.0%, or \$4.0 million, to \$30.6 million in YTD 2018. In the Jamieson Brands segment, SG&A expenses increased by \$3.5 million in YTD 2018 due to the acquisition of Body Plus adding \$1.0 million in costs, \$1.2 million in higher costs associated with being a public company, \$0.4 million higher compensation related costs, and \$1.2 million in non-recurring costs associated with the health food business integration, professional fees and international market expansion partially offset by \$0.2 million related to the timing of marketing 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 \$1.4 million to \$0.8 million in YTD 2018 primarily due to the YTD 2017 amortization of shares in escrow related to the acquisition of the assets of LVHS which became fully vested in the prior year.

Earnings from operations and operating margin

Earnings from operations increased 8.4%, or \$1.6 million, to \$20.3 million and operating margin is relatively consistent to the prior year at 13.8% in YTD 2018. Normalizing for the impact of amortization of fair value inventory adjustments in the prior year, share-based compensation related to the vesting of options in the prior year and the impact of non-recurring SG&A of \$1.4 million in the current year, operating margin decreased by 110 basis points compared to 15.9% in YTD 2017. This change is due to the gross profit margin impact discussed above and planned SG&A increases related to public company costs in the period.

Earnings from operations in the Jamieson Brands segment increased 19.0%, or \$2.9 million, to \$18.1 million and operating margin increased 140 basis points to 15.3% in YTD 2018. Normalizing for the impact of amortization of fair value inventory adjustments in the prior year, share-based compensation related to the vesting of options in the prior year and the impact of non-recurring SG&A of \$1.2 million in the current year, operating margin of 16.4% was consistent with 16.5% in YTD 2017. This change is due to planned SG&A increases related to public company costs and the gross profit margin impact discussed above.

Earnings from operations in the Strategic Partners segment decreased by \$1.3 million to \$2.2 million and operating margin decreased by 550 basis points to 7.6% 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 in YTD 2018 is relatively consistent to the prior year. 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 YTD 2018, the Company incurred costs associated with integrating our health food businesses consisting mainly of our Body Plus and LVHS 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 \$6.9 million in YTD 2017 is related to our Initial Offering (refer to “*Initial Public Offering*”).

Acquisition costs

Acquisition costs of \$2.3 million in YTD 2017 were related to the January 31, 2017 acquisition of Body Plus and Sonoma.

Other expenses

Other expense in YTD 2018 was comprised of non-recurring, non-employee related business integration and other consulting costs of \$1.2 million, offset by the reduction of the Holdback Amount paid related to deferred consideration on the acquisition of Body Plus and Sonoma of \$1.1 million. Other expenses of \$3.9 million in YTD 2017 were mainly related to deferred consideration in relation to the acquisition of Body Plus and Sonoma for \$3.7 million and other non-recurring costs of \$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 our 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 \$4.4 million in YTD 2018 compared to \$0.2 million in YTD 2017. The amount reported in 2017 included the discharge of our 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 \$2.9 million lower as prior year included a write-off associated with the

extinguishment of debt on January 31, 2017. Interest was also \$1.9 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 \$0.9 million to \$3.2 million in YTD 2018. Our YTD 2018 effective tax rate of 25.4% was impacted by a \$1.1 million accounting gain for deferred purchase consideration associated with the acquisition of Body Plus and Sonoma and non-deductible share-based compensation. Our YTD 2017 effective tax rate of 8.7% 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 are not deductible for tax purposes.

Depreciation

Depreciation expense increased by \$0.1 million to \$2.6 million in YTD 2018 due to increases in our investments in property, plant and equipment.

Amortization

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

EBITDA and Adjusted EBITDA

EBITDA increased by \$14.4 million to \$21.3 million in YTD 2018 primarily due to the factors discussed above.

Adjusted EBITDA increased by 1.3%, or \$0.3 million, to \$26.8 million and Adjusted EBITDA margin decreased by 120 basis points to 18.2% in YTD 2018 mainly due to the sales mix impact of strategic partner volumes affecting gross profit margin and higher planned SG&A related to public company costs.

Adjusted EBITDA in the Jamieson Brands segment increased 6.3%, or \$1.4 million, to \$23.8 million and Adjusted EBITDA margin decreased 30 basis points to 20.1% in YTD 2018 mainly due to planned SG&A increases related to public company costs.

Adjusted EBITDA in the Strategic Partners segment decreased \$1.1 million, to \$3.1 million and Adjusted EBITDA margin decreased by 490 basis points to 10.6% 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, we have 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.

(\$ in 000's, except share and per share amounts)	2018		2017				2016	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Revenue by segment								
Branded Business	58,617	59,894	65,545	61,889	56,647	52,920	55,188	45,882
Strategic Partners	18,492	10,210	18,773	18,256	14,608	11,981	10,507	9,381
Total revenue	77,109	70,104	84,318	80,145	71,255	64,901	65,695	55,263
Earnings from operations	10,172	10,126	14,933	11,281	10,699	8,022	11,464	7,370
Net income (loss)	4,788	4,626	3,733	1,089	(6,958)	(21,651)	(18,722)	8,313
Adjusted net income	6,903	5,760	9,749	7,793	7,870	2,170	5,101	2,512
EBITDA	10,967	10,339	11,194	8,346	3,255	3,605	15,409	8,988
Adjusted EBITDA	14,153	12,686	18,848	16,134	15,071	11,424	14,727	11,292
Basic, earnings (loss) per share	0.13	0.12	0.10	(0.24)	(13.37)	(41.62)	(35.99)	15.98
Diluted, earnings (loss) per share	0.12	0.12	0.09	(0.24)	(13.37)	(41.62)	(35.99)	0.04
Adjusted Diluted, earnings per share	0.17	0.15	0.25	0.20	0.20	0.05	0.13	0.06

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 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 our 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 enough 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 June 30, 2018, the aggregate amount outstanding under the Credit Facilities was approximately \$176.8 million (\$44.0 million under the Revolving Credit Facility and \$132.8 million under the Term Loan Facility) and the weighted average interest rate on this facility was 4.1%.

For the three and six months ended June 30, 2018, JLL made drawings of \$nil and \$nil, respectively, and debt repayments of \$2.4 million and \$4.9 million, respectively, applied against the term credit facility. For the three and six months ended June 30, 2018, JLL made drawings of \$6.3 million and \$18.9 million, respectively, and debt repayments of \$2.9 million and \$4.9 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 Credit Facilities 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 June 30, 2018 and 2017

(\$ in 000's)	Three months ended June 30		\$ Change	% Change
	2018	2017		
Cash, beginning of period	2,373	8,395	(6,022)	(71.7%)
Cash flows from (used in):				
Operating activities	8,547	3,065	5,482	178.9%
Investing activities	(2,468)	(701)	(1,767)	(252.1%)
Financing activities	(982)	-	(982)	100.0%
Cash, end of period	<u>7,470</u>	<u>10,759</u>	<u>(3,289)</u>	<u>(30.6%)</u>

Cash Flows Generated from Operating Activities

In Q2 2018, cash flows generated from operating activities totalled \$8.5 million, compared to \$3.1 million for the same period in the prior year. The increase is mainly due to the change in cash used in working capital of \$0.4 million and cash generated in operating activities before working capital considerations of \$5.1 million. The change in working capital is primarily driven by favourable timing on accounts payable in the current year, offset by public offering costs accrued in the prior year. Net change in operating activities before working capital considerations was higher primarily due to public offering costs incurred in the prior year.

Cash Flows Used in Investing Activities

Cash flows used in investing activities in Q2 2018 totalled \$2.5 million compared to cash flows used of \$0.7 million for the same period in the prior year. This is mainly due to expenditures for property, plant, and equipment which fluctuate based on scheduled preventative maintenance as well as the timing and availability of strategic investment opportunities designed to improve efficiency and/or expand capacity. Expenditures for property, plant, and equipment in Q2 2018 is mainly for the expansion of our production capacities.

Cash Flows Used in Financing Activities

Cash flows used in financing activities in Q2 2018 totalled \$1.0 million compared to \$nil for the same period in the prior year. In Q2 2018, we paid \$3.0 million of dividends to common shareholders, made net drawings of \$0.9 million from our Credit Facilities and received funds of \$1.1 million on the exercise of stock options and our employee share purchase plan ("ESPP"). In Q2 2017, proceeds from our Credit Facilities of \$3.0 million was offset by repayment for the same amount in the period.

Analysis of Cash Flows — six months ended June 30, 2018 and 2017

(\$ in 000's)	Six months ended June 30		\$ Change	% Change
	2018	2017		
Cash, beginning of period	4,833	15,881	(11,048)	(69.6%)
Cash flows from (used in):				
Operating activities	3,388	11,179	(7,791)	(69.7%)
Investing activities	(5,534)	(83,905)	78,371	93.4%
Financing activities	4,783	67,604	(62,821)	(92.9%)
Cash, end of period	<u>7,470</u>	<u>10,759</u>	<u>(3,289)</u>	<u>(30.6%)</u>

Cash Flows Generated from Operating Activities

For YTD 2018, cash flows generated from operating activities totalled \$3.4 million, compared to \$11.2 million for the same period in the prior year. The decrease is mainly due to \$7.0 million of deferred compensation associated with our acquisition of Body Plus and Sonoma, the change in cash used in working capital of \$9.5 million

partially offset by cash generated in operating activities before working capital considerations of \$8.7 million. The change in working capital is primarily driven from higher accounts receivable and inventories. Increase in receivables due to higher international sales with longer payment terms and increase in inventories due to timing of orders and planned increases in safety stock. The change in accounts payable remained consistent year over year due to favourable timing of payments in the current year, offset by higher accruals for public offering costs in the prior year.

Cash Flows Used in Investing Activities

Cash flows used in investing activities in YTD 2018 totalled \$5.5 million compared to cash flows used of \$83.9 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. The remaining balance primarily relates to expenditures for property, plant, and equipment which fluctuate based on scheduled preventative maintenance as well as the timing and availability of strategic investment opportunities designed to improve efficiency and/or expand capacity. Expenditures for property, plant, and equipment increased by \$4.3 million in YTD 2018 compared to YTD 2017 mainly for the expansion of our production capacities, with some 2017 projects carrying into 2018.

Cash Flows Generated from Financing Activities

Cash flows generated from financing activities in YTD 2018 totalled \$4.8 million compared to \$67.6 million for the same period in the prior year. In YTD 2018, we obtained proceeds (net of repayment) of \$9.1 million from our Credit Facilities and \$1.7 million in the exercise of stock options and our employee share purchase plan (“ESPP”), offset by the issuance of \$6.0 million of dividends to common shareholders. In YTD 2017, cash flows used in financing activities was primarily due to the increase in debt by \$72.1 million to fund the acquisition of Body Plus and Sonoma and receipt of \$1.3 million from the issuance of redeemable preferred shares partially offset by financing costs of \$5.8 million.

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 is 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 \$1.5 million of the Retention Bonus for total payments of deferred compensation of \$7.0 million.

For the three and six month period ended June 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 \$3.7 million) in the other expenses line on 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

Other than the repayments and drawings noted in the above “*Credit Facilities*” section, 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

The Company has an equity based compensation plan providing for the issuance of securities under which the grants will be made by the Company. Under the LTIP, the Board of Directors, at its discretion may grant share options, restricted shares, RSUs, stock appreciation rights and deferred share units.

On May 31, 2018 we granted 108,280 performance based RSUs to certain employees to receive one common share of the Company for each RSU. The RSUs 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 RSUs, increases 6% or more annually (using a compound annual growth rate) over the weighted average price of the shares on the TSX for the 90 day period immediately preceding the grant date.

The Company has determined that the above specified performance condition represents a market condition. Accordingly, the Company recognizes the compensation cost over the vesting period, irrespective of whether the market condition is satisfied, provided that service conditions are satisfied. The corresponding credit is recognized as contributed surplus and is considered a contribution as RSUs 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 RSUs, including the expected dividend and stock-price volatility.

The Company’s share-based compensation expense, for the three and six months ended June 30, 2018 is \$0.4 million and \$0.8 million, respectively. As at June 30, 2018, options to purchase 2,729,014 common shares and RSUs for 108,280 common shares were outstanding.

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 in fiscal 2018 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			
	#	\$	#	\$
As at December 31, 2017	37,740,121	234,908		
Exercise of stock options	322,500	2,489		
Employee stock purchase plan	8,091	167		
As at June 30, 2018	38,070,712	237,564		

	Common Shares			
	#	\$	#	\$
As at December 31, 2016	520,253	400		
Issued during the period	-	-		
As at June 30, 2017	520,253	400		

	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)	-	-
Preferred share accretion during the period	-	28,796	-	-
As at June 30, 2017	21,403,880	239,565	94,592,252	94,592

As at June 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 six month period ended June 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:

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

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 sales promotional incentives provided to its customers. Previously, under IAS 18, “Revenue”, the value of certain sales 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	January 1, 2018
	\$
Accounts payable and accrued liabilities	6,697
Deferred income tax	(1,775)
Deficit	<u>(4,922)</u>

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 Brands 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.

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 June 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 \$330.0 million and \$340.0 million slightly higher than our previous range of between \$325.0 million - \$335.0 million. We are seeing favourable revenue trends in both our Jamieson Brands and Strategic Partner segments.

Revenue in the Jamieson Brands segment is expected to increase 8% to 11% compared with Proforma revenue in 2017 assuming twelve months of revenue for Body Plus. Key drivers of our Branded volumes include the strength of the Jamieson Brand in FDM and our Chinese certification progress partially offset by factors associated with the integration of our Health Food business as follows:

- a) On a year-to-date basis, we have seen strong consumer sales of the Jamieson branded products through our FDM customers, assuming current velocity is maintained we would expect shipment growth to align with consumer sales growth resulting in favourable shipment volumes in the last six months of the year.
- b) During the quarter the Company was awarded its first Orange-Hat certification from China's Food and Drug Administration ("FDA"). 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 offline channels. We expect initial shipments of these orders to be placed and fulfilled prior to the end of Fiscal 2018.
- c) Our Health Food integration has impacted our ability to launch planned innovation and execute our planned packaging refresh of the Precision and Progressive Health Food brands.

Revenue in the Strategic Partners segment is expected to grow between 15% and 23% 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 maintained our original AEBITDA guidance of \$67.0 million to \$69.0 million and Adjusted Earnings Per share range of \$0.83 and \$0.87 which takes into consideration the higher revenue guidance discussed above as well as expanded fixed costs to accelerate future International growth opportunities, especially in China, and to secure top talent and build out our e-commerce infrastructure to drive domestic and international growth through internal and third party e-commerce platforms.

We also expect to incur certain non-recurring expenses related to the integration of our existing health food 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 expense 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 39.8 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 38,075,626 Common Shares and no Preference Shares are issued and outstanding. As of the date hereof, the Company had 3,171,268 options and 108,280 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.

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.