



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

For the three months ended March 31, 2021

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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 May 4, 2021. It should be read in conjunction with our unaudited condensed consolidated interim financial statements and our accompanying notes as at and for the three months ended March 31, 2021, our audited consolidated annual financial statements and accompanying notes for the year ended December 31, 2020 and the related annual MD&A.

Our unaudited condensed consolidated interim financial statements and accompanying notes for the three months ended March 31, 2021 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 "Q1 2021" are to our fiscal quarter ended March 31, 2021 and to "Q1 2020" are to our fiscal quarter ended March 31, 2020.

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 that 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 and secondary 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, and 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 our most recent annual information form.

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

Overview

Founded in 1922, Jamieson is Canada's leading branded manufacturer, distributor and marketer of high-quality natural health products. We offer consumers a comprehensive and innovative line of branded vitamins, minerals and supplements ("VMS") products and certain over-the-counter remedies through our Jamieson and Smart Solutions by Lorna Vanderhaeghe 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 have allowed us to significantly grow the business internationally, with products being sold in over 45 countries and regions worldwide.

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

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

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*”.

Impact of COVID-19

The COVID-19 pandemic continued to impact businesses globally throughout the first quarter of 2021. While efforts are being taken to minimize the spread of COVID-19 through government mandated shutdowns, restrictions on social gatherings, and the rollout of vaccines, there is a continuing risk that COVID-19 and variants of concern may impact our results of operations or financial condition. Any prolonged retail or manufacturing closures could impact our ability to service our customers and consumers. An outbreak within our operating facilities could result in absenteeism or a plant closure for an extended duration. Our suppliers may experience a business disruption which could impact the supply of raw materials or components required for production. Limitations on transportation or border closures may result in shipment delays from our suppliers or to our customers.

We have implemented and continue to refine our safety protocols to ensure the health and wellness of our employees and business partners. Our safety measures include the use of personal protective equipment, physical distancing initiatives and shift gaps to avoid congestion during production changeovers to reduce risk within our operating facilities. We established shift premiums for our essential hourly staff who maintain production during government mandated measures. Business practices and policies have been updated such that non-essential travel for business is discouraged and to prioritize work-from-home to conduct business where possible. As a result of the policies and procedures implemented, our operations to date have been largely uninterrupted by the COVID-19 pandemic.

As a result of COVID-19, consumers have continued to prioritize their health and wellness which has resulted in higher demand for both immunity and general health supplements. In response to the demand, we secured additional and alternative sources of raw materials to ensure continuity of supply. We utilized our network of third-party manufacturing partners and invested in capital to expand our internal operating capacity.

The duration and impact of the COVID-19 pandemic remains unknown. This includes the rate and manner in which vaccines are distributed, as well as the evolving impact of existing variants of concern and any future COVID-19 variants and strains. Our ability to continue to adapt to the changing environment may materially affect our business. We have not benefited from nor applied for any government financial aid or relief fund relating to the COVID-19 pandemic.

Our Brands

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

Product Innovation and Planning

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

Customer Relationships

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

Sourcing and Production

We have developed a strong, global supply chain based on long-standing relationships and have had relationships with the majority of our suppliers for over ten years. We purchase our ingredients from approximately 250 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 2020, 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 short to medium-term contracts for raw materials at fixed prices to provide 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 spending. 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 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, iconic brand status, strong innovation capabilities and 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 U.S.-Canadian currency exchange rates where the products sold contain materials and inputs purchased with U.S. dollars. We manage our net exposure to fluctuating U.S.-Canadian currency exchange rates 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.

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; and (iii) 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, some of which are not recognized under IFRS. See “*Non-IFRS Financial Measures*”.

Revenue

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

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

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

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

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

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

As required for the interim consolidated financial statements, we have disaggregated revenue recognized from contracts with customers. Please refer to Note 11 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, 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 SG&A expenses and share-based compensation.

Gross Profit Margin

“Gross profit margin” is defined as gross profit divided by revenue.

SG&A

Our SG&A expenses are predominantly comprised of wages, benefits, travel, marketing, accounting fees, legal fees, non-customer-specific promotional costs and other expenses related to the corporate infrastructure required to support our business. Our SG&A expenses also include regulatory, legal, accounting, insurance, termination benefits 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 before: (i) provision for (recovery of) income taxes; (ii) interest expense (income) and other financing costs; (iii) depreciation of property, plant, and equipment; and (iv) amortization of intangible assets.

Adjusted EBITDA

“Adjusted EBITDA” is defined as EBITDA before: (i) share-based compensation; (ii) foreign exchange loss (gain); (iii) international market expansion; (iv) business integration; (v) COVID-19 related costs; and (vi) other non-operating and non-recurring 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 adjusted for the impact of: (i) share-based compensation; (ii) foreign exchange loss (gain); (iii) international market expansion; (iv) business integration; (v) COVID-19 related costs; and (vi) 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 Adjusted Net Income divided by the total weighted average number of outstanding diluted shares at the end of the most recently completed quarter for the relevant period. We believe Adjusted Diluted Earnings per Share is a useful measure to assess the performance of our Company.

Selected Consolidated Financial Information

The following table provides selected historical financial information and other data of the Company which should be read in conjunction with our 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 below for the respective fiscal periods.

	Three months ended		\$ Change	% Change
	March 31			
<i>(\$ in 000's, except as otherwise noted)</i>	2021	2020		
Revenue	98,270	84,523	13,747	16.3%
Cost of sales	64,382	53,267	11,115	20.9%
Gross profit	33,888	31,256	2,632	8.4%
Gross profit margin	34.5%	37.0%	-	(2.5%)
Selling, general and administrative expenses	20,766	17,632	3,134	17.8%
Share-based compensation	2,602	1,265	1,337	105.7%
Earnings from operations	10,520	12,359	(1,839)	(14.9%)
Operating margin	10.7%	14.6%	-	(3.9%)
Foreign exchange loss (gain)	16	(749)	765	102.1%
Interest expense and other financing costs	1,415	1,928	(513)	(26.6%)
Income before income taxes	9,089	11,180	(2,091)	(18.7%)
Provision for income taxes	2,953	3,169	(216)	(6.8%)
Net income	6,136	8,011	(1,875)	(23.4%)
Adjusted net income	9,220	7,800	1,420	18.2%
EBITDA	13,953	15,964	(2,011)	(12.6%)
Adjusted EBITDA	18,542	16,687	1,855	11.1%
Adjusted EBITDA margin	18.9%	19.7%	-	(0.8%)
Weighted average number of shares				
Basic	39,889,792	39,099,112		
Diluted	41,507,592	40,028,774		
Earnings per share attributable to common shareholders:				
Basic, earnings per share	0.15	0.20		
Diluted, earnings per share	0.15	0.20		
Adjusted diluted, earnings per share	0.22	0.19		

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

<i>(\$ in 000's)</i>	As at March 31, 2021	As at December 31, 2020
Selected Consolidated Financial Position Data:		
Total assets	633,807	609,341
Total non-current liabilities	245,307	225,929

The following table provides a reconciliation of net income to EBITDA, Adjusted EBITDA, and Adjusted Net Income for the three months ended March 31, 2021 and March 31, 2020.

(\$ in 000's, except as otherwise noted)	Three months ended		\$ Change	% Change
	March 31			
	2021	2020		
Net income	6,136	8,011	(1,875)	(23.4%)
<i>Add:</i>				
Provision for income taxes	2,953	3,169	(216)	(6.8%)
Interest expense and other financing costs	1,415	1,928	(513)	(26.6%)
Depreciation of property, plant, and equipment	2,396	1,920	476	24.8%
Amortization of intangible assets	1,053	936	117	12.5%
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	13,953	15,964	(2,011)	(12.6%)
Share-based compensation ⁽¹⁾	2,602	1,265	1,337	105.7%
Foreign exchange loss (gain)	16	(749)	765	102.1%
International market expansion	-	13	(13)	(100.0%)
Business integration ⁽²⁾	1,517	107	1,410	1317.8%
COVID-19 related costs ⁽³⁾	698	87	611	702.3%
Other ⁽⁴⁾	(244)	-	(244)	(100.0%)
Adjusted EBITDA	18,542	16,687	1,855	11.1%
Provision for income taxes	(2,953)	(3,169)	216	6.8%
Interest expense and other financing costs	(1,415)	(1,928)	513	26.6%
Depreciation of property, plant, and equipment	(2,396)	(1,920)	(476)	(24.8%)
Amortization of intangible assets	(1,053)	(936)	(117)	(12.5%)
Share-based compensation ⁽⁵⁾	(978)	(1,121)	143	12.8%
Other	-	59	(59)	(100.0%)
Tax effect of normalization adjustments	(527)	128	(655)	(511.7%)
Adjusted net income	9,220	7,800	1,420	18.2%

- (1) The Company's share-based compensation expense pertains to our long-term incentive plan (the "LTIP") (refer to "*Share-based compensation*"), with performance-based share units ("PSUs"), time-based restricted share units ("RSUs"), deferred share units ("DSUs") expenses, and associated payroll taxes included within the current period. Q1 2021 includes a one-time impact of \$1.5 million relating to the acceleration of share-based compensation expense on our CEO transition.
- (2) We incurred start-up costs of \$1.5 million to complete our transition to a third-party logistics provider to make room for capacity expansion at our Twin Oaks and Scarborough distribution facilities. Prior year expenses pertained to a pre-existing contractual obligation, associated with the acquisition and subsequent integration of our acquired business, which terminated at the end of 2020.
- (3) We incurred additional costs related to COVID-19. These costs do not reflect the ongoing costs of operation and they have been adjusted for comparison purposes. In Q1 2021, these costs are primarily associated with shift premiums to essential Jamieson hourly staff who maintain production during government lockdowns and the donation of vitamins and supplements to charitable organizations. In Q1 2021 and Q1 2020, we donated vitamins and supplements along with protective equipment and supplies to various charitable organizations.
- (4) Consists primarily of a litigation settlement we received in the current quarter.
- (5) Costs pertaining to our LTIP, excluding PSUs and RSUs granted to certain employees, and the acceleration of \$1.5 million of share-based compensation expense in relation to our CEO transition (refer to "*Share-based compensation*").

The following table provides selected financial information for the Jamieson Brands operating segment for the three months ended March 31, 2021 and March 31, 2020.

Jamieson Brands

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

For the three months ended March 31,	<u>2021</u>	<u>2020</u>	<u>\$ Change</u>	<u>% Change</u>
Revenue	75,895	69,794	6,101	8.7%
Gross profit	31,057	29,275	1,782	6.1%
Gross profit margin	40.9%	41.9%	-	(1.0%)
Selling, general and administrative expenses	19,280	16,056	3,224	20.1%
Share-based compensation	2,602	1,265	1,337	105.7%
Earnings from operations	9,175	11,954	(2,779)	(23.2%)
Operating margin	12.1%	17.1%	-	(5.0%)
Adjusted EBITDA	16,825	15,787	1,038	6.6%
Adjusted EBITDA margin	22.2%	22.6%	-	(0.4%)

The following table provides a reconciliation for the Jamieson Brands operating segment from earnings from operations to Adjusted EBITDA for the three months ended March 31, 2021 and March 31, 2020.

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

For the three months ended March 31,	<u>2021</u>	<u>2020</u>	<u>\$ Change</u>	<u>% Change</u>
Earnings from operations	9,175	11,954	(2,779)	(23.2%)
Depreciation of property, plant, and equipment	1,906	1,441	465	32.3%
Amortization of intangible assets	1,053	936	117	12.5%
Share-based compensation	2,602	1,265	1,337	105.7%
International market expansion	-	13	(13)	(100.0%)
Business integration	1,470	107	1,363	1273.8%
COVID-19 related costs	600	71	529	745.1%
Other	19	-	19	100.0%
Adjusted EBITDA	<u>16,825</u>	<u>15,787</u>	<u>1,038</u>	<u>6.6%</u>

The following table provides selected financial information for the Strategic Partners operating segment for the three months ended March 31, 2021 and March 31, 2020.

Strategic Partners

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

For the three months ended March 31,	<u>2021</u>	<u>2020</u>	<u>\$ Change</u>	<u>% Change</u>
Revenue	22,375	14,729	7,646	51.9%
Gross profit	2,831	1,981	850	42.9%
Gross profit margin	12.7%	13.4%	-	(0.7%)
Selling, general and administrative expenses	1,486	1,576	(90)	(5.7%)
Earnings from operations	1,345	405	940	232.1%
Operating margin	6.0%	2.7%	-	3.3%
Adjusted EBITDA	1,717	900	817	90.8%
Adjusted EBITDA margin	7.7%	6.1%	-	1.6%

The following table provides a reconciliation for the Strategic Partners operating segment from earnings from operations to Adjusted EBITDA for the three months ended March 31, 2021 and March 31, 2020.

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

For the three months ended March 31,	<u>2021</u>	<u>2020</u>	<u>\$ Change</u>	<u>% Change</u>
Earnings from operations	1,345	405	940	232.1%
Depreciation of property, plant, and equipment	490	479	11	2.3%
Business integration	47	-	47	100.0%
COVID-19 related costs	98	16	82	512.5%
Other	(263)	-	(263)	(100.0%)
Adjusted EBITDA	<u>1,717</u>	<u>900</u>	<u>817</u>	<u>90.8%</u>

Revenue

Revenue increased 16.3%, or \$13.7 million, to \$98.3 million in Q1 2021. This was driven by 8.7% growth in Jamieson Brands revenue and 51.9% growth in Strategic Partners revenue compared with Q1 2020.

Revenue in the Jamieson Brands segment increased by \$6.1 million, or 8.7%, to \$75.9 million in Q1 2021 due to growth in domestic and international Jamieson Brands sales of \$1.9 million and \$4.2 million, respectively. Our domestic Jamieson Brands sales increased by 3.0% in Q1 2021, offsetting the initial COVID-19 panic buying period which began in Q1 2020 through a mid-quarter price increase, higher shipment volume to support continued demand and inventory replenishment in our retailer and distributor partners. Our international business increased by 55.2% compared with Q1 2020, which includes non-immunity product order fulfillment in early 2021 as we prioritized immunity based products exiting 2020.

Revenue in the Strategic Partners segment increased 51.9%, or \$7.6 million, to \$22.4 million in Q1 2021 mainly due to order timing, along with expanded programs with our customers.

Gross profit

Gross profit increased by \$2.6 million to \$33.9 million in Q1 2021, including \$0.5 million primarily relating to start-up costs to complete our transition to a third-party logistics provider. Normalized gross profit increased by \$3.1 million to \$34.4 million in Q1 2021 mainly driven by revenue growth. Gross profit margin decreased by 250 basis points to 34.5% in Q1 2021, including 50 basis points as a result of the aforementioned start-up costs to complete our transition to a third-party logistics provider. Normalized gross profit margin was 35.0% or 200 basis points lower than prior year reflecting a higher proportion of Strategic Partners segment sales due to timing, along with costs associated with COVID-19 safety and business continuity measures implemented in the second quarter of 2020, and an upfront signing bonus on the renewal of our 3-year collective bargaining agreement with our unionized hourly employees in Windsor, Ontario.

Gross profit in the Jamieson Brands segment increased by \$1.8 million to \$31.1 million in Q1 2021, including \$0.5 million primarily relating to start-up costs to complete our transition to a third-party logistics provider. Normalized gross profit increased by \$2.3 million to \$31.6 million in Q1 2021 mainly driven by revenue growth. Gross profit margin decreased by 100 basis points to 40.9% in Q1 2021, including 60 basis points as a result of the aforementioned start-up costs. Normalized gross profit margin was 41.5% or 40 basis points lower compared with Q1 2020 as timing of promotional activities, pricing, and volume driven efficiencies were offset by costs associated with COVID-19 safety and business continuity measures and collective bargaining renewal bonuses.

Gross profit in the Strategic Partners segment increased by \$0.9 million to \$2.8 million in Q1 2021 mainly driven by higher volumes, partially offset by increased costs associated with COVID-19 safety and business continuity measures. Gross profit margin decreased by 70 basis points to 12.7% largely due to the COVID-19 measures noted above.

Selling, general and administrative expenses

SG&A expenses increased by \$3.1 million to \$20.8 million in Q1 2021. Normalized for the impact of specified costs, SG&A expenses increased by \$1.8 million or 10.7% to \$19.3 million in Q1 2021. Normalized SG&A in the Jamieson Brands segment was \$1.8 million higher than Q1 2020 due to additional resources to support our strategic initiatives and timing of marketing investments. Normalized SG&A in the Strategic Partners segment was relatively flat compared with Q1 2020.

Specified costs of \$1.5 million in Q1 2021 are mainly comprised of \$1.0 million in start-up costs to complete our transition to a third-party logistics provider and \$0.7 million pertaining to COVID-19 wage premiums and donations, partially offset by \$0.2 million received on a prior litigation settlement. Specified costs of \$0.2 million in Q1 2020 were related to a pre-existing contractual obligation, associated with the acquisition and subsequent integration of our acquired business, and COVID-19 donations.

Share-based compensation

Share-based compensation increased by \$1.3 million to \$2.6 million in Q1 2021 reflecting the accelerated \$1.5 million of share-based compensation expense in relation to our CEO transition.

Earnings from operations and operating margin

Earnings from operations decreased by \$1.8 million and operating margin decreased by 390 basis points to 10.7% in Q1 2021 mainly due to factors impacting gross profit margin and higher fixed costs, including the transition to a third-party logistics provider and the acceleration of share-based compensation discussed above. Normalized earnings from operations increased by \$1.4 million, or 11.3% in the first quarter of 2021 and operating margin was 14.2% compared with 14.9% in first quarter of 2020.

Earnings from operations in the Jamieson Brands segment decreased by \$2.8 million and operating margin decreased by 500 basis points to 12.1% in Q1 2021 mainly due to factors impacting gross profit margin and higher fixed costs, which includes our transition to a third-party logistics provider and the acceleration of share-based compensation expense.

Earnings from operations in the Strategic Partners segment increased by \$0.9 million due to higher revenue and gross profit. Operating margin increased 330 basis points primarily due to lower fixed costs as a percentage of revenues partially offset by factors impacting gross profit margin discussed above.

Foreign exchange

Foreign exchange gain of \$0.7 million in Q1 2020 was a result of the significant change in the USD/CAD exchange rate on our USD denominated accounts receivable and accounts payable at the end of the quarter. We experience fluctuations in the USD/CAD exchange rates between the date of transaction and when cash is realized.

Interest expense and other financing costs

Interest expense and other financing costs decreased by \$0.5 million to \$1.4 million in Q1 2021 due to lower prevailing interest rates and lower average borrowings in the quarter.

Provision for income taxes

Provision for income taxes was \$3.0 million in Q1 2021 compared with \$3.2 million in Q1 2020. Our Q1 2021 effective tax rate of 32.5% and Q1 2020 effective tax rate of 28.3% include the impact of non-deductible share-based compensation, where the current period's rate was impacted by the accelerated recognition of share-based compensation expense on our CEO transition.

Depreciation

Depreciation expense increased by \$0.5 million to \$2.4 million in Q1 2021 due to increases in our capital investments to increase capacity which includes depreciation on our right-of-use lease assets pertaining to our transition to a third-party logistics provider.

Amortization

Amortization expense increased by \$0.1 million to \$1.1 million in Q1 2021 driven by investments in website development, system implementations, product patent and registrations.

EBITDA and Adjusted EBITDA

EBITDA decreased by \$2.0 million to \$14.0 million in Q1 2021 primarily due to the factors discussed above.

Adjusted EBITDA increased by \$1.9 million to \$18.5 million driven by higher volumes. Adjusted EBITDA margin decreased by 80 basis points to 18.9% for the quarter mainly due to a higher proportion of Strategic Partners segment sales and the impact of COVID-19 safety and business continuity measures affecting Branded Margins.

Adjusted EBITDA in the Jamieson Brands segment increased by \$1.0 million to \$16.8 million driven by higher volumes. Adjusted EBITDA margin decreased by 40 basis points to 22.2% due to factors impacting gross profit margin discussed above and higher fixed costs as a percentage of revenues.

Adjusted EBITDA in the Strategic Partners segment increased by \$0.8 million, to \$1.7 million while Adjusted EBITDA margin increased by 160 basis points to 7.7%. The increase was mainly driven by higher volumes and lower fixed costs as a percentage of revenues.

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.

(\$ in 000's, except per share amounts)	2021	2020				2019		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Revenue by segment								
Jamieson Brands	75,895	89,733	82,604	74,292	69,794	78,803	70,184	60,816
Strategic Partners	22,375	30,636	22,961	18,912	14,729	24,450	18,374	19,776
Total revenue	98,270	120,369	105,565	93,204	84,523	103,253	88,558	80,592
Earnings from operations	10,520	22,734	17,804	10,675	12,359	20,332	13,265	11,940
Net income	6,136	15,405	12,144	6,038	8,011	13,163	4,928	8,186
Adjusted net income	9,220	17,614	12,655	9,882	7,800	14,253	9,492	7,897
EBITDA	13,953	25,417	21,202	12,715	15,964	22,902	12,221	15,007
Adjusted EBITDA	18,542	29,383	22,933	18,983	16,687	25,641	19,394	16,392
Basic, earnings per share	0.15	0.39	0.31	0.15	0.20	0.34	0.13	0.21
Diluted, earnings per share	0.15	0.37	0.29	0.15	0.20	0.33	0.12	0.21
Adjusted diluted, earnings per share	0.22	0.42	0.30	0.24	0.19	0.36	0.24	0.20

Revenue

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

- accelerated demand for immunity and general health products as a result of the COVID-19 pandemic;
- periodic price increases to recapture cost escalation;

- the impact of innovation 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;
- severity of cold and flu season; and
- foreign currency fluctuations.

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

- available capacity when considering demand for Jamieson Brands products;
- launch of new programs with existing or new customers, which include initial pipeline shipments;
- availability of customer supplied materials;
- innovation and geographic demand for high quality certified manufacturers;
- the impact of a change from a tolling arrangement to turnkey for certain products;
- periodic price increases to recapture cost escalation; and
- foreign currency fluctuations.

Earnings from operations

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

- revenue factors impacting price and volume noted above;
- return on incremental promotion and marketing programs;
- improvements in production efficiencies and higher economies of scale;
- temporary increases to production costs driven by physical distancing initiatives and safety measures established within our facilities to protect our employees as a result of the COVID-19 pandemic;
- supply continuity costs including air freight and third-party packaging costs to meet higher demand during the COVID-19 pandemic;
- additional costs incurred in our transition to a third-party logistics provider to make room for capacity expansion at our Twin Oaks and Scarborough distribution facilities;
- raw material costs in native currency;
- timing of marketing spend and variable compensation;
- accelerated recognition of share-based compensation expense on our CEO transition; 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 our Credit Facilities (refer to “*Credit Facilities*”), will be sufficient to meet the Company’s future operating expenses, capital expenditures, and future debt service costs.

Our primary liquidity and capital requirements are for capital expenditures, working capital and general corporate needs. We have cash and availability under our Credit Facilities 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 our Credit Facilities will be sufficient to meet ongoing capital expenditures, working capital requirements and other cash needs.

Our ability to fund future debt service costs, operating expenses, and capital expenditures will depend on our future operating performance which will be affected by general economic, financial and other factors including factors beyond our control (refer to “*Risk Factors*”). From time to time, 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

As at March 31, 2021, the Company had \$114.7 million in cash and available revolving and swingline facilities.

On September 27, 2019, Jamieson Laboratories Ltd. (“JLL”), a wholly owned subsidiary of Jamieson, amended and restated its credit agreement to add Jamieson Health Products USA Ltd. (collectively with JLL the “Borrowers”) as a co-borrower and to provide a secured revolving facility of \$275.0 million (including a \$10.0 million swingline facility) with the option to increase the revolving facility by \$200.0 million (collectively, the “Credit Facilities”). The Credit Facilities mature on September 27, 2024 with the outstanding principal repayable in full on this date.

For the three months ended March 31, 2021, JLL made drawings of \$21.8 million, and debt repayments of \$1.8 million, respectively, applied against the Credit Facilities. For the three months ended March 31, 2021, the weighted average interest rate on the Credit Facilities was 2.8% (2020 - 4.1%).

The Credit Facilities are collateralized by security agreements and first charges over the assets including property, plant and equipment and intellectual property of the Borrowers and certain other subsidiaries of JLL, subject to permitted liens. Under the terms of the Credit Facilities, the Borrowers are subject to restrictive covenants and must maintain an interest coverage ratio of not less than 3.00:1.00 and a leverage ratio not greater than 4.00:1.00. We are in compliance with all covenants as at the date of this MD&A.

Analysis of Cash Flows — three months ended March 31, 2021 and 2020

	Three months ended		\$ Change	% Change
	March 31			
<i>(\$ in 000's, except as otherwise noted)</i>	2021	2020		
Cash, beginning of period	1,166	198	968	488.9%
Cash flows from (used in):				
Operating activities	(5,064)	2,877	(7,941)	(276.0%)
Investing activities	(3,606)	(2,411)	(1,195)	(49.6%)
Financing activities	16,270	4,563	11,707	256.6%
Cash, end of period	8,766	5,227	3,539	67.7%

Cash Flows Used in / Generated from Operating Activities

In Q1 2021, cash flows used in operating activities totalled \$5.1 million compared with cash flows generated from operating activities of \$2.9 million in Q1 2020. Cash from operating activities before working capital considerations of \$11.9 million was \$0.7 million lower, due to lower earnings as a result of start-up costs incurred as part of our transition to a third-party logistics provider and COVID-19 safety and business continuity measures, offsetting higher revenues. Cash invested in working capital increased by \$7.3 million driven by higher international branded and Strategic Partner sales which carry longer terms, partially offset by timing of payments.

Cash Flows Used in Investing Activities

Cash flows used in investing activities in Q1 2021 totalled \$3.6 million compared with \$2.4 million for the same period in the prior year. Purchases of property, plant and equipment increased by \$1.3 million reflecting our investments in additional manufacturing and packaging equipment required to expand production capacity. This was partially offset by a \$0.1 million decrease in expenditures on intangible assets.

Cash Flows Generated from Financing Activities

Cash flows generated from financing activities in Q1 2021 totalled \$16.3 million compared with \$4.6 million for the same period in the prior year. In Q1 2021, we received net proceeds of \$20.0 million from our Credit Facilities and \$2.0 million for the exercise of stock options and our employee share purchase plan (“ESPP”), partially offset by payments of lease liabilities of \$0.8 million and a distribution of \$5.0 million of dividends to common shareholders. In Q1 2020, we received net proceeds of \$8.2 million from our Credit Facilities and \$1.2 million for the exercise of stock options and our ESPP, partially offset by payments of lease liabilities of \$0.5 million and a distribution of \$4.3 million of dividends to our common shareholders.

Contractual Obligations

Other than the repayments and drawings noted in the above “Credit Facilities” section, there was no material change in our remaining contractual obligations and commitments from the annual MD&A as at and for the year ended December 31, 2020.

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 LTIP is an equity-based compensation plan providing for the issuance of securities under which grants will be made. Under the LTIP, the board of directors of the Company, at its discretion, may grant share options, restricted shares, RSUs, PSUs, DSUs, and stock appreciation rights. The awards are settled in common shares of the Company (“Common Shares”) with a cash settlement alternative available to the Company. We also maintain the ESPP for all eligible employees for the purchase of Common Shares.

Our share-based compensation expense, for the three months ended March 31, 2021 is \$2.6 million (2020 - \$1.3 million).

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 and our international sales. These agreements mature at various dates and qualify for hedge accounting as cash flow hedges of future foreign currency transactions. The terms of the foreign currency forward contracts match the terms of the expected highly probable forecast transactions. As a result, there is no hedge ineffectiveness to be recognized in the consolidated statements of operations and comprehensive income. As of March 31, 2021, \$135.9 million of anticipated foreign currency denominated purchases have been hedged with underlying foreign exchange forward contracts settling at various dates in the 21 months following the end of the current quarter.

We also use interest rate swaps to manage our long-term interest rate exposure with respect to interest on our Credit Facilities which is based on fluctuating CDOR. We have entered into an interest rate swap with a term of October 1, 2020 to September 27, 2024 with a notional principal of \$140.0 million and an annual amortization of \$10.0 million on the first business day of each year. The notional principal of the interest rate swap is \$130.0 million as at the end of this reporting period. The interest rate swap is a derivative measured at fair value and meets hedge accounting requirements.

Outstanding Share Capital and Redeemable Preferred Shares

	Common Shares	
	#	\$
As at December 31, 2020	39,872,912	255,795
Exercise of stock options	105,962	2,370
Employee stock purchase plan	3,887	132
As at March 31, 2021	39,982,761	258,297

	Common Shares	
	#	\$
As at December 31, 2019	38,989,942	243,224
Exercise of stock options	274,188	1,890
Employee stock purchase plan	5,274	125
As at March 31, 2020	39,269,404	245,239

As at March 31, 2021, the authorized share capital of the Company 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; and
- 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, 2020. Items subject to significant estimate uncertainty and critical judgments which have the most impact on the amounts recognized in the unaudited condensed consolidated interim financial statements are included both below and in the annual audited financial statement notes.

Our significant accounting judgments, estimates and assumptions are affected as a result of the various ongoing economic and social impacts of the COVID-19 global pandemic. There continues to be significant uncertainty as to the likely effects of this outbreak which may, among other things, impact our employees, suppliers, and customers. It is not possible to predict the impact COVID-19 will have on our financial position and our results of operations in the future. We are monitoring the future impact of the pandemic on all aspects of our business. At each quarter end, management analyzes the impact of the COVID-19 pandemic on our estimates and judgments related to valuation of inventory, receivables and allowance for doubtful accounts below.

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

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

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

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

Consumer responses to COVID-19 have resulted in the acceleration of demand for both immunity and general health supplements, thus reducing the risk of inventory obsolescence. We have customer specific materials on hand to support certain strategic partner customers, that requires management to estimate future demand at the customers’ retail locations when establishing appropriate provisions for inventory. These estimates are based on the assumption that such customers will continue to carry on business, and management also considers the current economic conditions of the customer, product life of inventory and the potential alternative use. To the extent that actual losses on inventory differ from those estimated, inventory, net income, and comprehensive income will be affected in future periods.

Receivables and allowance for expected credit losses

We are exposed to credit risk with respect to amounts receivable from customers. Our allowance is determined by historical experiences, and considers factors including, the aging of the balances, the customer’s credit worthiness, updates based on the current economic conditions, expectation of bankruptcies, and the political and economic volatility in the markets/location of our customers.

COVID-19 has increased the measurement uncertainty with respect to the determination of the allowance for doubtful accounts. The impact of the COVID-19 pandemic to our customers’ businesses is considered when making credit assessments. Deposits are requested on accounts as required. We maintain provisions for potential credit losses, which are assessed on a regular basis.

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 judgment is involved in determining if there are circumstances indicating that testing for impairment is required, and in identifying cash-generating units (“CGUs”) 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 assumptions. Fair value less costs to sell is determined using market multiples. Value in use is determined using future cash inflows and outflows, discount rates, growth rates and asset lives. These estimates and assumptions could affect 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.

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 judgment is required in establishing fair values. Changes in assumptions about the inputs to these models could affect the reported fair value of our financial and non-financial assets and liabilities.

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

To the extent that these estimates differ from those realized, the measured asset or liability, net income, and/or comprehensive income will be affected in future periods. Information about the valuation techniques and inputs used in determining the fair value of various assets and liabilities are disclosed in Notes 5, 7, 12, 15, 16 and 20 in the accompanying notes of our audited consolidated annual financial statements for the year ended December 31, 2020.

Taxes

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

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

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

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.

Significant Accounting Policies

Our unaudited condensed consolidated interim financial statements were prepared using the same accounting policies as described in Note 2 in the accompanying notes of our audited consolidated annual financial statements for the year ended December 31, 2020.

Internal Control over Financial Reporting

The Chief Executive Officer and the Chief Financial Officer of the Company (collectively, the “Certifying Officers”), along with other members of management, have 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 to design the Company’s ICFR. The Certifying Officers have evaluated, or caused to be evaluated under their supervision, the effectiveness of the Company’s ICFR as at December 31, 2020 and have concluded that the Company’s ICFR was effective as at December 31, 2020.

There have been no changes in the Company’s ICFR during the three-month period ended March 31, 2021 which have materially affected, or are reasonably likely to materially affect, the Company’s ICFR.

Limitations of an Internal Control System

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

Outlook

Consistent with the guidance provided in our Fiscal 2020 MD&A, we expect our fiscal 2021 revenue to grow between 4.3% and 8.6% and range from \$421.0 to \$438.0 million. We anticipate Adjusted EBITDA to range from \$95.0 to 100.0 million and Adjusted Diluted Earnings per Share to range from \$1.24 to \$1.32.

Revenue in the Jamieson Brands segment is expected to increase between 4.0% and 8.0% compared with fiscal 2020, driven by growth in the following categories:

- We expect domestic branded revenues to grow between 2.0% and 5.0% including the impact of both pricing and volume expectations while lapping surge COVID-19 demand realized earlier in the pandemic. Our guidance reflects a higher base resulting from the impact of COVID-19 and consumers’ continued focus on health and wellness and the replenishment of lower distributor and retailer stock positions. We continue to expand our market position focusing on innovation and consumer education while increasing investments in digital commerce.
- We expect international growth between 15.0% and 25.0% including headwinds resulting from a strengthening Canadian dollar impacting our U.S. denominated international sales. Our guidance reflects strong growth in China while sustaining a higher base in our remaining international markets. We plan to increase our marketing investments in China to build brand equity and accelerate our long-term growth opportunities in China.

Revenue in the Strategic Partners segment is expected to increase between 5.0% to 10.0%, reflecting the higher demand of our customers’ branded products.

We expect to incur certain costs affecting gross margins in fiscal 2021, including costs associated with continuing COVID-19 safety and business continuity measures in our operating facilities and higher depreciation resulting from our capacity expansion and transition to a third-party logistics platform.

We expect to incur certain costs that will not affect the Company’s ongoing operations and business performance. These costs have not been reflected in our expected Adjusted EBITDA, Adjusted Net Income and Adjusted Diluted Earnings per Share for fiscal 2021 and includes the following:

- Start-up costs of \$1.5 million in the first quarter of 2021 associated with the completion of our transition to a third-party logistics provider to maximize our capacity within our existing operating footprint.

- Specific COVID-19 related costs, reflecting wage premiums paid to essential hourly employees who maintain production during government mandated restrictions, wages incurred during production closures for health and safety reasons, along with the donation of supplements and safety equipment to support local charities.
- IT system enhancements to improve operating efficiencies and better service our customers as we continue to expand our business.
- The accelerated recognition of certain share-based compensation on our CEO transition announced during the first quarter of 2021.

The foregoing financial outlook is based on the following assumptions for fiscal 2021, amongst others:

- an average annual exchange rate between the U.S. and Canadian dollar of U.S. \$1.00 = \$1.25;
- normalized SG&A expenses will increase by approximately 9.0% to 13.0% as we continue to expand in our e-commerce capability and support growth in international markets, including a \$3.0 to \$4.0 million investment in marketing primarily to support international markets and our long-term growth opportunities in China;
- depreciation expense will be approximately \$10.5 million reflecting the acceleration of capital additions and our third-party logistics platform;
- stock-based compensation costs of approximately \$5.5 million (including \$1.5 million in accelerated expenses relating to our CEO transition);
- interest expense of approximately \$5.5 to \$6.0 million based on our estimated borrowing and prevailing rates;
- income tax rates of approximately 27.0% based on non-deductible stock-based compensation; and
- a fully diluted share count of between 41.5 and 42.0 million shares.

Our revenue growth and cost increases will not be linear throughout fiscal 2021, with the following factors impacting growth in the second quarter:

- We expect domestic Jamieson Brands segment to grow by at least 5.0% in the second quarter of 2021 compared to the panic related demand that accompanied the first wave of the pandemic in the second quarter of 2020, reflecting a higher level of inventory replenishments in retail and distributors, and the impact of pricing. In response to earlier capacity constraints, our distributors are ordering higher levels of inventory ahead of its normal second half replenishment cadence which are expected to begin shipping in the second quarter of 2021.
- Our international branded business is expected to increase between 5.0% to 10.0% in the second quarter including an approximately 5% reduction for the impact of foreign exchange. Revenue in the second quarter reflects the timing of customer replenishments made throughout the first quarter of 2021 and the surge in demand from our international customers and consumers which occurred in the second quarter of 2020.
- We expect Strategic Partners revenues in the second quarter of 2021 to increase between 40.0% to 50.0%, reflecting the timing of new customer programs which temporarily shifted seasonal volume from the first half of 2020 into the second half of 2020.
- Normalized SG&A expenses will increase by approximately 15.0% to 17.0% as we increase our resources to support our strategic initiatives and timing of our expanded international marketing efforts.

See “Impact of COVID-19” section for risks and uncertainties affecting our business. Our guidance above reflects the current situation and may be impacted by the depth and duration of any potential COVID-19 measures resulting from the pandemic.

The description of our 2021 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 2021 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 40,060,710 Common Shares are issued and outstanding. As of the date hereof, the Company had 2,817,056 options, 296,803 PSUs, 9,000 RSUs, and 16,032 DSUs outstanding.

Additional Information

Additional information relating to our Company, including our most recent annual report and 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. Please see also the discussion of risks associated with COVID-19 discussed above under the heading “Summary of Factors Affecting Our Performance” and “Outlook”.

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, foreign currency derivatives and interest rate 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 U.S. 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 accounts receivable and accounts payable are non-interest bearing. Our exposure to the risk of changes in market interest rates arises from long-term debt obligations with floating interest rates. We manage our interest rate risk by entering into interest rate swaps, in which we agree to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed-upon notional principal amount.

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 lease liabilities.

We manage our liquidity risk through continuous monitoring of our forecast and actual cash flows and 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.