

# **Jamieson Wellness Inc.**

Unaudited Condensed Consolidated Financial Statements  
**For the three and six months ended June 30, 2017 and 2016**

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**Jamieson Wellness Inc.**  
**Unaudited Condensed Consolidated Interim Statement of Financial**  
**Position**

In thousands of Canadian dollars as at

	<u>Notes</u>	<u>June 30,</u> <u>2017</u>	<u>December</u> <u>31, 2016</u>
<b>Assets</b>			
<b>Current assets</b>			
Cash		10,759	15,881
Accounts receivable	4	52,695	52,888
Inventories	5	60,614	36,417
Prepaid expenses and other current assets		2,038	1,787
		<b>126,106</b>	<b>106,973</b>
<b>Non-current assets</b>			
Property, plant and equipment		44,036	43,901
Goodwill		126,455	94,653
Intangible assets		206,003	157,888
Deferred income tax		2,545	1,764
<b>Total Assets</b>		<b>505,145</b>	<b>405,179</b>
<b>Current liabilities</b>			
Redeemable preferred shares	8	334,157	197,901
Accounts payable and accrued liabilities		61,766	51,077
Income taxes payable		5,435	2,688
Derivatives	12	1,403	92
Current portion of long-term debt	7	9,750	-
		<b>412,511</b>	<b>251,758</b>
<b>Long-term liabilities</b>			
Long-term debt	7	213,045	152,777
Note to Jamieson Finco LP	6	-	107,255
Post-retirement benefits		4,036	3,797
Deferred income tax		56,029	41,194
<b>Total Liabilities</b>		<b>685,621</b>	<b>556,781</b>
<b>Shareholders' deficiency</b>			
Share capital	8	400	400
Contributed surplus		3,297	2,598
Deficit		(182,333)	(153,724)
Accumulated other comprehensive loss		(1,840)	(876)
<b>Total Shareholders' deficiency</b>		<b>(180,476)</b>	<b>(151,602)</b>
<b>Total Liabilities and Shareholders' deficiency</b>		<b>505,145</b>	<b>405,179</b>

**Subsequent events**

**16**

*(see the accompanying notes to the unaudited condensed consolidated interim financial statements)*

Approved on behalf of the Board:

*(Signed) David Williams*  
**Director**

*(Signed) Mark Hornick*  
**Director**

## Jamieson Wellness Inc.

### Unaudited Condensed Consolidated Interim Statements of Operations and Comprehensive Income (Loss)

In thousands of Canadian dollars, except share and per share amounts,

	Notes	<u>Three months ended June 30,</u>		<u>Six months ended June 30,</u>	
		<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Revenue	<b>13</b>	71,255	67,016	136,156	127,373
Cost of sales		45,935	45,632	88,627	87,745
Selling, general and administrative expenses		13,183	11,907	26,624	24,955
Share-based compensation		1,438	1,233	2,184	2,466
Earnings from operations		10,699	8,244	18,721	12,207
Foreign exchange (gain) loss		186	(72)	418	21
Termination benefits and related costs		-	425	2,499	1,034
Acquisition costs	<b>3</b>	446	-	2,303	-
Other expenses	<b>10</b>	8,874	22	10,808	30
Preferred share accretion	<b>8</b>	13,411	(575)	28,796	13,817
Interest (income) expense and other financing costs	<b>11</b>	(8,084)	5,718	228	11,505
Income (loss) before income taxes		(4,134)	2,726	(26,331)	(14,200)
Provision for income taxes		2,824	903	2,278	557
<b>Net income (loss)</b>		<b>(6,958)</b>	<b>1,823</b>	<b>(28,609)</b>	<b>(14,757)</b>
Net movement on cash flow hedges that may be reclassified subsequently to net income (loss)	<b>12</b>	(1,325)	(200)	(1,311)	(4,201)
Income tax		351	53	347	1,093
Net of tax		(974)	(147)	(964)	(3,108)
<b>Total other comprehensive loss</b>		<b>(974)</b>	<b>(147)</b>	<b>(964)</b>	<b>(3,108)</b>
<b>Comprehensive income (loss)</b>		<b>(7,932)</b>	<b>1,676</b>	<b>(29,573)</b>	<b>(17,865)</b>
Earnings per share attributable to common shareholders:	<b>14</b>				
Basic, loss per share		<b>(13.37)</b>	3.50	<b>(54.99)</b>	(28.37)
Diluted, loss per share		<b>(13.37)</b>	0.07	<b>(54.99)</b>	(28.37)
Weighted average number of shares	<b>14</b>				
Basic		<b>520,253</b>	520,253	<b>520,253</b>	520,253
Diluted		<b>520,253</b>	24,392,609	<b>520,253</b>	520,253

(see the accompanying notes to the unaudited condensed consolidated interim financial statements)

**Jamieson Wellness Inc.**  
**Unaudited Condensed Consolidated Interim Statements of Changes in**  
**Deficiency**

In thousands of Canadian dollars

	<u>Share capital</u>	<u>Contributed surplus</u>	<u>Deficit</u>	<u>Accumulated other comprehensive loss</u>	<u>Total Shareholders' deficiency</u>
<b>As at December 31, 2016</b>	<b>400</b>	<b>2,598</b>	<b>(153,724)</b>	<b>(876)</b>	<b>(151,602)</b>
Net loss for the period	-	-	(28,609)	-	(28,609)
Other comprehensive loss	-	-	-	(964)	(964)
Share-based compensation (Note 9)	-	699	-	-	699
<b>As at June 30, 2017</b>	<b>400</b>	<b>3,297</b>	<b>(182,333)</b>	<b>(1,840)</b>	<b>(180,476)</b>

  

	<u>Share capital</u>	<u>Contributed surplus</u>	<u>Deficit</u>	<u>Accumulated other comprehensive (loss) income</u>	<u>Total Shareholders' equity (deficiency)</u>
As at December 31, 2015	400	1,315	(128,558)	1,751	(125,092)
Net (loss) for the period	-	-	(14,757)	-	(14,757)
Other comprehensive loss	-	-	-	(3,108)	(3,108)
Share-based compensation (Note 9)	-	641	-	-	641
As at June 30, 2016	400	1,956	(143,315)	(1,357)	(142,316)

**Jamieson Wellness Inc.**  
**Unaudited Condensed Consolidated Interim Statements of Cash Flows**  
In thousands of Canadian dollars,

	Notes	Three months ended June 30,		Six months ended June 30,	
		2017	2016	2017	2016
<b>Cash provided by (used in)</b>					
<b>Operating activities</b>					
Net income (loss)		(6,958)	1,823	(28,609)	(14,757)
Items not affecting cash					
Depreciation of property, plant, and equipment		1,216	1,093	2,487	2,313
Amortization of intangible assets		846	807	1,680	1,614
Amortization of fair value adjustments		847	-	1,412	-
Amortization of deferred financing fees		363	243	3,683	486
Deferred income taxes		1,486	850	475	(596)
Accrued interest	6	(11,001)	2,035	(8,965)	4,070
Share-based compensation		1,438	1,233	2,184	2,466
Former shareholder consideration reclassified as compensation expense	3	2,215	-	3,691	-
Preferred share accretion	8	13,411	(575)	28,796	13,817
Derivatives		(974)	(148)	(964)	(3,108)
Others		117	92	217	189
Net change in non-cash working capital		59	(874)	4,734	323
		<b>3,065</b>	<b>6,579</b>	<b>10,821</b>	<b>6,817</b>
<b>Investing activities</b>					
Acquisition of businesses	3	-	-	(82,142)	-
Additions to property, plant and equipment, net		(701)	(1,182)	(1,405)	(2,074)
		<b>(701)</b>	<b>(1,182)</b>	<b>(83,547)</b>	<b>(2,074)</b>
<b>Financing activities</b>					
Proceeds from revolving credit facility		-	-	33,000	1,000
Proceeds from (repayment to) term credit facility		-	(5,743)	39,064	(5,743)
Issuance of redeemable preferred shares	8	-	-	1,341	-
Financing charges	7	-	-	(5,801)	-
		-	<b>(5,743)</b>	<b>67,604</b>	<b>(4,743)</b>
<b>Increase (decrease) in cash</b>		<b>2,364</b>	<b>(346)</b>	<b>(5,122)</b>	-
<b>Cash - Beginning of the period</b>		<b>8,395</b>	<b>2,671</b>	<b>15,881</b>	<b>2,325</b>
<b>Cash - End of the period</b>		<b>10,759</b>	<b>2,325</b>	<b>10,759</b>	<b>2,325</b>
<b>Supplemental disclosure</b>					
Amount of income taxes paid (received)		(998)	-	1,575	65
Amount of interest paid		2,410	3,404	7,583	6,990

(see the accompanying notes to the unaudited condensed consolidated interim financial statements)

**Jamieson Wellness Inc.**  
**Notes to the unaudited Condensed Consolidated Interim Financial**  
**Statements**  
**Three and six months ended June 30, 2017 and 2016**

**1. Company overview**

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

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

The condensed consolidated interim financial statements of Jamieson and its subsidiaries for the three and six months ended June 30, 2017 were authorized for issue by the Board of Directors of the Company on August 8, 2017. Jamieson is a company continued under the *Business Corporations Act* (Ontario) (“OBCA”) and resident in Canada whose majority shareholder as at June 30, 2017 was Jamieson Intermediate Holdings S.à r.l. (“CCMP”), which is an entity to which investment advisory services are provided by CCMP Capital Advisors, LP. Jamieson’s registered office is located at 66 Wellington Street West, Suite 5300, TD Bank Tower, Toronto, ON, M5K 1E6. Prior to its continuance under the OBCA on June 28, 2017, Jamieson existed under the *Business Corporations Act* (British Columbia) and its registered office was located at 550 Burrard Street, Suite 2900, Vancouver, B.C., V6C 0A3.

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

**1.2 Subsidiaries**

The table below provides a summary of the Company’s subsidiaries. Unless otherwise stated, the subsidiaries as listed below have share capital consisting solely of common shares, which are held directly or indirectly by the Company. Two of Jamieson’s subsidiaries, JLL and International Nutrient Technologies Limited, were continued under the OBCA on June 28, 2017. Two other subsidiaries, Body Plus Nutritional Products Inc. (“Body Plus”) and Sonoma Nutraceuticals Inc. (“Sonoma”), were incorporated under the OBCA. The remaining Jamieson subsidiary, JWELL Holdings Inc. (“JWELL”), was continued under the OBCA on June 28, 2017. JWELL was created for certain limited purposes in connection with the Reorganization (as defined in Note 8). JWELL was wound up on July 4, 2017 but has not yet been formally dissolved. For each of the subsidiaries, Canada is their principal place of operations.

As at Entity	<b>June 30, 2017</b> %	December 31, 2016 %
Jamieson Laboratories Ltd.	<b>100</b>	100
International Nutrient Technologies Limited	<b>100</b>	100
JWELL Holdings Inc.	<b>100</b>	-
Body Plus Nutritional Products Inc.	<b>100</b>	-
Sonoma Nutraceuticals Inc.	<b>100</b>	-

**Jamieson Wellness Inc.**  
**Notes to the unaudited Condensed Consolidated Interim Financial**  
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**2. Summary of significant accounting policies**

**Basis of preparation and statement of compliance**

The unaudited condensed consolidated interim financial statements (“Interim Financial Statements”) have been prepared in accordance with IAS 34, “Interim Financial Reporting”. They do not include all of the information required for full annual financial statements and should be read in conjunction with the December 31, 2016, annual financial statements. The Interim Financial Statements have been prepared using the same accounting policies as disclosed in the December 31, 2016, annual consolidated financial statements and there have been no changes to the Company’s significant accounting policies. The Interim Financial Statements are presented in Canadian dollars and all values are rounded to the nearest thousand (\$000), except when otherwise indicated.

**Share Split**

As a result of the one-to-20.81010939 share split, effected July 5, 2017, all current and historical period per share data and number of common shares, Class A to V preferred shares (as defined in Note 8) and options outstanding in these Interim Financial Statements are presented on a post share split basis. See note 16 “Events after the reporting period”.

**3. Business Combinations**

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 \$91,000, before post-closing cash adjustments, plus acquisition costs of \$3,092 which were recognized in the consolidated statement of operations and comprehensive income (loss) of the Company for the six months ended June 30, 2017, except for approximately \$789 of the acquisition costs which the Company recognized during the year ended December 31, 2016. The purchase price was funded with cash of \$82,142, with an additional post-closing payment to be paid in cash of \$372. An additional \$1,358 was set aside to be paid as a retention bonus to key employees of Body Plus and Sonoma, subject to these individuals remaining employed for 12 months following the closing of the acquisition. Further, pursuant to the purchase agreement, the former owner is entitled to an additional \$7,500 payment 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. The deferred compensation of \$8,858 comprised of the retention bonus and the amount payable in accordance with the consulting agreement, in accordance with IFRS 3 “Business Combination” have been accounted for as deferred compensation.

During the three and six months ended June 30, 2017 the Company has recognized \$2,215 and \$3,691, respectively, of deferred compensation in the other expense line on the unaudited condensed consolidated interim statements of operations and comprehensive income (loss).

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

The following table provides the preliminary purchase price allocation of the net assets acquired at their fair value amounts:

**Jamieson Wellness Inc.**  
**Notes to the unaudited Condensed Consolidated Interim Financial**  
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**Three and six months ended June 30, 2017 and 2016**

	<b>Body Plus and Sonoma</b>
	<b>\$</b>
Accounts receivable	5,731
Inventories	13,909
Prepaid expenses and other current assets	291
Accounts payable and accrued liabilities	(4,203)
Property, plant and equipment	1,491
Goodwill	31,802
Intangible assets	49,500
Income taxes payable	(2,801)
Deferred income tax liability	(13,578)
<b>Total net assets acquired</b>	<b>82,142</b>

The determination of the fair value of assets acquired and liabilities assumed has been based upon management's preliminary estimates and certain assumptions with respect to the fair values of the net assets acquired and liabilities assumed except for deferred taxes, which are based on the full amount required under IAS 12 and are expected to be finalized within one year of acquisition.

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

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

Customer relationships	30 years
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The Company expects its trade names to generate economic benefit in perpetuity, and accordingly, has assigned the trade names as an indefinite life intangible asset.

The preliminary goodwill represents the future economic benefit arising from other assets acquired in the acquisition that are not individually identifiable and separately recognized. The preliminary goodwill arising from the acquisition of \$31,802 is attributable to expected future income and cash-flow projections and synergies the Company expects to achieve in combining the acquisition into its operations. Preliminary goodwill is allocated between the fair value of the assembled workforce and the residual value.

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

**Jamieson Wellness Inc.**  
**Notes to the unaudited Condensed Consolidated Interim Financial**  
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**4. Accounts Receivable**

As at	<b>June 30, 2017</b>	December 31, 2016
	<u>\$</u>	<u>\$</u>
Trade	<b>49,996</b>	52,279
Other miscellaneous receivables	<b>3,504</b>	1,364
Allowance for doubtful accounts	<b>(805)</b>	(755)
	<u><b>52,695</b></u>	<u>52,888</u>

The Company maintains an allowance for doubtful accounts that represents its estimate of the uncollectible amounts based on specific losses estimated on individual exposures and provision based on historical experience.

**5. Inventories**

As at	<b>June 30, 2017</b>	December 31, 2016
	<u>\$</u>	<u>\$</u>
Raw material and packaging	<b>24,857</b>	12,455
Bulk product and work in process	<b>10,025</b>	8,086
Packaged finished goods	<b>29,064</b>	18,047
Inventory provision	<b>(3,332)</b>	(2,171)
	<u><b>60,614</b></u>	<u>36,417</u>

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

**6. Related party transactions**

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

Amounts included in due to/from related parties are presented on a net basis on the condensed consolidated interim statements of financial position as follows:

*(i) Due to Jamieson Finco LP ("Finco")*

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

On June 28, 2017, Finco forgave \$12,958 of accrued interest reducing the principal and accrued interest in respect of the note to \$98,289 (\$83,501 principal and \$14,789 accrued interest). Through a series of transactions, the principal and accrued interest was settled on a net basis in exchange for 94,592,252.49 Class W preferred shares of the Company (see Note 8) and the Company agreeing to remit \$3,697 of tax payable on behalf of Finco (the "Finco Tax Payable").

**Jamieson Wellness Inc.**  
**Notes to the unaudited Condensed Consolidated Interim Financial**  
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The balance of the note as at June 30, 2017 is \$nil (December 31, 2016 - \$107,255) including accrued interest of \$nil (2016 - \$23,754).

*(ii) Share-based compensation*

As at June 30, 2017, the Company had a share option plan (the "Legacy Option Plan") for senior employees and directors of the Company and its subsidiaries for the purchase of shares of Jamieson. Please refer to Note 9 for details of the Legacy Option Plan.

The expense recognized for employee services received related to the Legacy Option Plan for the three and six months ended June 30, 2017 is \$394 and \$699 (2016 – \$321 and \$642), respectively, and is classified as contributed surplus on the Company's unaudited condensed consolidated statements of financial position.

**7. Long-term debt**

As at	<b>June 30, 2017</b>	December 31, 2016
	<b>\$</b>	<b>\$</b>
Revolving credit facility (i, iii)	<b>33,000</b>	-
Term credit facility (i, ii)	<b>195,000</b>	155,936
Deferred financing fees	<b>(5,205)</b>	(3,159)
	<b>222,795</b>	152,777
Less: Current portion	<b>(9,750)</b>	-
	<b>213,045</b>	152,777

i) On January 31, 2017, JLL extinguished its existing credit facilities with CPPIB (see ii) and Wells Fargo (see iii) and entered into a term loan and revolving credit facility agreement with a syndicate of lenders. The agreement provided a secured term credit facility of \$195,000 (with the option to increase the facility up to \$255,000) and a revolving credit facility of \$75,000 (including a \$10,000 swingline facility) (collectively, the "Credit Facilities"). \$50,000 of the proceeds of the Company's initial public offering (the "Offering") of common shares completed on July 7, 2017 was used to repay a portion of the secured term credit facility (see Note 16). Financing costs of \$4,265 and \$1,536 were incurred as part of the issuance of the term credit facility and revolving credit facility, respectively. Additionally, the Company expensed the remaining unamortized deferred financing fees of \$2,340 related to the CPPIB credit facility and \$819 related to the Wells Fargo credit facility.

As at June 30, 2017, the weighted average interest rate on this facility was 4.3%.

For the three and six month periods ended June 30, 2017 JLL made debt repayments of \$nil and \$10,000, respectively, applied against the revolving credit facility.

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

Under the terms of the credit facilities, JLL is subject to restrictive covenants and must maintain an interest coverage ratio of not less than 3.00:1.00 and a leverage ratio less than the following:

**Jamieson Wellness Inc.**  
**Notes to the unaudited Condensed Consolidated Interim Financial**  
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<u>Fiscal Quarter</u>	<u>Ratio</u>
<i>Leverage Ratio</i>	
January 31, 2017 to Fiscal Quarter ending on or before September 30, 2017	5.45:1.00
Fiscal quarters ending on or after December 31, 2017 to fiscal quarter ending September 30, 2018	4.75:1.00
Fiscal quarters ending on or after December 31, 2018	4.05:1.00
Notwithstanding the foregoing, commencing the first fiscal quarter after closing of an IPO, the Leverage Ratio on a consolidated basis, must be at all times not greater than 4.05:1.00.	
<i>Interest Coverage Ratio</i>	
Not less than	3.00:1.00

JLL is in compliance with all covenants as at the date of these Interim Financial Statements.

ii) On January 31, 2014, JLL entered into a second lien term loan agreement with CPPIB Credit Investments Inc. ("CPPIB"). The agreement provided a secure term credit facility of \$150,000. On June 12, 2014, JLL amended the term facility to provide an additional \$15,000 in committed funds. The term facility was to mature on January 31, 2021, with the outstanding principal amount repayable in full on this date.

Interest on borrowings under this facility accrued based on Canadian Banker's Acceptance ("BA") plus an applicable margin of 7.14% with a BA floor of 1.25%. As at June 30, 2016, the weighted average interest rate on this facility was 8.39%.

The term credit facility required an annual repayment based on a percentage of excess cash flow.

For the three and six month periods ended June 30, 2016 JLL made debt repayments of \$5,743.

The term facility was secured by a collateral agreement and second charge over the assets including property, plant and equipment of JLL.

On January 31, 2017, JLL extinguished its term loan with CPPIB and entered into a term loan agreement with a syndicate of lenders (see Note 7.i).

iii) On January 31, 2014, JLL entered into a credit agreement with Wells Fargo Capital Finance Corporation ("Wells Fargo"). The agreement provided a revolving credit facility of \$45,000. The revolving facility was to mature on January 31, 2019, with the outstanding principal amount repayable in full on this date. As at December 31, 2016, JLL had no amounts outstanding and the entire \$45,000 revolving credit facility was available to draw upon.

Interest on borrowings under this facility accrued based on BA plus an applicable margin of 2.5% with a BA floor of 1.25%. As at June 30, 2016, the weighted average interest rate on this facility was 3.9%.

For the three and six month periods ended June 30, 2016 JLL made debt repayments of \$nil and borrowings of \$1,000 respectively.

The revolving facility was collateralized with first charge over the assets including property, plant and equipment of JLL.



# **Jamieson Wellness Inc.**

## **Notes to the unaudited Condensed Consolidated Interim Financial Statements**

### **Three and six months ended June 30, 2017 and 2016**

Redeemable preferred shares, which are retractable at the option of the holder on demand, are classified as financial liabilities on the consolidated statements of financial position.

On May 25, 2017 preferred shares issued as deferred compensation to Lorna Vanderhaeghe Health Solutions Inc. were vested under an accelerated vesting agreement and, \$750 was recorded as share-based compensation expense in the unaudited condensed consolidated statement of operations and comprehensive income (loss). The accrued compensation has been reclassified to redeemable preferred shares on the unaudited condensed consolidated interim statement of financial position.

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

As part of the Offering, the Company further reorganized (the "Reorganization") its share capital (Note 16). The above is a description of the Company's share capital after the receipt of the Rectification Order, after an amendment to the Company's articles to create the Class W preferred shares but prior to the Reorganization.

#### **9. Share-based compensation**

##### Senior employees and directors plan

##### Legacy Option Plan

As at June 30, 2017, on a post share split basis, 2,601,264 common shares were reserved for issuance under the Legacy Option Plan (December 31, 2016 – 2,601,264). As at June 30, 2017, options to purchase 2,548,193 Class A common shares were outstanding (December 31, 2016 – 2,505,059) on a post share split basis. Options were granted under the Legacy Option Plan with an exercise price equal to or greater than the fair value of the shares into which they may be converted.

In connection with the Offering, on July 5, 2017 the Legacy Option Plan was amended and restated and option exchange agreements were entered into such that, among other things: (i) options issued under the Legacy Option Plan became exercisable for common shares (rather than Class A common shares), which were a part of the authorized share capital of the Company prior to the Reorganization (as described in Note 8 and Note 16) and (ii) adjustments were made to reflect the share split.

On July 7, 2017, 206,229 options granted under the Legacy Option Plan were exercised for 206,229 common shares post share split. As at July 14, 2017, 2,341,964 options remain outstanding under the Legacy Option Plan of which 1,827,288 are vested (refer to Note 16) on a post share split basis. Following closing of the Offering, no further awards may be made under the Legacy Option Plan.

Among other vesting circumstances, service based options generally vest (i) at a rate of 50% on each of the third and fourth anniversary from the beginning of the vesting period, or (ii) upon a change of control of the Company or public offering involving the Company in which, in each case, CCMP sells less than 100% of its shareholding in the Company, and a number of options equal to the difference, if any, between CCMP's divested percentage of the Company and the percentage of vested service based options held by a particular option holder will vest. All performance based options that had been issued under the Legacy Option Plan vested in conjunction with the Offering. Options expire no later than the 10th anniversary of the beginning of the vesting period or upon termination of employment.

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Long-term incentive plan ("LTIP")

On July 7, 2017 the Company adopted the LTIP. In conjunction with the closing of the Offering, options to purchase 679,944 common shares were granted under the LTIP to directors, officers and certain employees on a post share split basis. Options are granted with an exercise price equal to or greater than the fair value of the shares into which they may be converted. Options granted to directors of the Company fully vest on the one year anniversary from the grant date. Options granted to persons other than directors of the Company vest at a rate of 25% per year on each anniversary date from the beginning of the vesting period.

**10. Other expenses**

	<b>Three months ended June 30,</b>		<b>Six months ended June 30,</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Initial public offering costs (Note 16)	<b>6,653</b>	-	<b>6,884</b>	-
Deferred consideration (Note 3)	<b>2,215</b>	-	<b>3,691</b>	-
Other	<b>6</b>	22	<b>233</b>	30
	<b>8,874</b>	22	<b>10,808</b>	30

**11. Interest expense and other financing costs**

	<b>Three months ended June 30,</b>	
	<b>2017</b>	<b>2016</b>
	<b>\$</b>	<b>\$</b>
Interest on debt and borrowings	<b>2,554</b>	3,440
Interest on note to Finco (Note 6)	<b>(11,001)</b>	2,035
Amortization of deferred financing fees (Note 7)	<b>363</b>	243
	<b>(8,084)</b>	5,718

	<b>Six months ended June 30,</b>	
	<b>2017</b>	<b>2016</b>
	<b>\$</b>	<b>\$</b>
Interest on debt and borrowings	<b>5,510</b>	6,949
Interest on note to Finco (Note 6)	<b>(8,965)</b>	4,070
Amortization of deferred financing fees (Note 7)	<b>3,683</b>	486
	<b>228</b>	11,505

**12. Financial instruments and risk management activities**

Financial instruments

Fair value measurement

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

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	June 30, 2017			December 31, 2016		
	Notional	Fair Value		Notional	Fair Value	
	Amount	Asset	Liability	Amount	Asset	Liability
	\$USD	\$	\$	SUSD	\$	\$
Foreign currency forward contract designated as hedging	<b>35,000</b>	-	<b>(1,403)</b>	24,000	-	(92)

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

The fair values of financial assets and liabilities classified as loans and receivables and other financial liabilities (excluding long-term debt and note to Finco) approximate their carrying value due to their short-term nature and have been classified as Level 2 in the fair value hierarchy.

The carrying value of long-term debt and note to Finco as at June 30, 2017 and December 31, 2016 approximates their fair value. The fair value of the Company's long-term debt was estimated based on discounted future cash flows using current rates for similar financial instruments subject to similar risks and maturities. The fair value of long-term debt is considered a Level 2 fair value measurement.

If one or more of the significant inputs are not based on observable market data, the instrument is included in Level 3. Class A to V redeemable preferred shares was the only instrument recorded as Level 3 as the liability was not based on observable inputs. The fair value of the redeemable preferred shares is determined to be the greater of a) the original purchase price plus any unpaid declared dividends, and b) the as-if converted value, and was calculated using a market multiple approach based on trailing twelve months Adjusted EBITDA, utilizing an Adjusted EBITDA multiple of 10.1x (December 31, 2016 – 10.1x).

The following table demonstrates the sensitivity to a reasonably possible change to the Adjusted EBITDA multiple, with all other variables held constant, of the Company's net income (loss) before taxes (due to changes in the fair value of the preferred share liability).

	Change in EBITDA multiple	Effect on income (loss) before tax \$
For the three and six months ended June 30,		
<b>2017</b>	<b>1x</b>	<b>50,728</b>
2016	1x	40,000

For the six month period ended June 30, 2017 and the year ended December 31, 2016 there were no transfers between levels.

Financial instrument risk management objectives and policies

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

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations, resulting in financial loss to the Company. The Company is exposed to credit risk from its customers (primarily related to trade

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accounts receivable) in the normal course of business. The Company has adopted a policy of only dealing with creditworthy counterparties. To mitigate this risk, the Company carries out regular credit evaluations and purchases credit insurance for international customers, where appropriate, as a means of mitigating the risk of financial loss from defaults.

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

Market risk

*Foreign exchange risk*

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

The Company uses foreign exchange forward contracts to manage foreign exchange transaction exposure. As of June 30, 2017, \$36,090 (December 31, 2016 - \$32,257) of anticipated foreign currency denominated sales and purchases have been hedged with underlying foreign exchange forward contracts settling at various dates in the year preceding the consolidated statement of financial position date.

*Interest rate risk*

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

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

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

	<b>Increase/ decrease in basis points</b>	<b>Effect on profit before tax</b>
	+/-	\$
<b>Three months ended June 30, 2017</b>	<b>100</b>	<b>488</b>
<b>Six months ended June 30, 2017</b>	<b>100</b>	<b>1,040</b>
Three months ended June 30, 2016	100	239
Six months ended June 30, 2016	100	470

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

*Commodity price risk*

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

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Liquidity risk

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

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

The contractual undiscounted principal cash flows payable in respect of financial liabilities excluding redeemable preferred shares as at the consolidated statement of financial position date, were as follows:

As at	<b>June 30, 2017</b>	December 31, 2016
	<b>\$</b>	\$
Amounts payable in more than 12 months	<b>222,286</b>	266,988
Amounts payable in less than 12 months	<b>71,516</b>	51,077
	<b>293,802</b>	318,065

The Company has incurred operating losses and has a working capital deficiency primarily resulting from redeemable preferred shares issued to CCMP. As part of the Offering, the Company completed the Reorganization events (described in Note 16).

Capital

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

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

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

**13. Segment information**

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

- The Jamieson Brands segment principal activity is the manufacturing, distribution and marketing of branded natural health products including vitamins, minerals and supplements; and
- The Strategic Partners segment principal activity is providing contract manufacturing services to consumer health companies and retailers worldwide.

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

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

	<b>For the three month period ended June 30, 2017</b>			
	<b>Jamieson Brands</b>	<b>Strategic Partners</b>	<b>Eliminations</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Revenue	<b>56,647</b>	<b>25,947</b>	<b>(11,339)</b>	<b>71,255</b>
Earnings from operations	<b>8,602</b>	<b>2,097</b>	-	<b>10,699</b>
Foreign exchange loss				<b>186</b>
Acquisition costs				<b>446</b>
Other income				<b>8,874</b>
Preferred share accretion				<b>13,411</b>
Interest income and other financing costs				<b>(8,084)</b>
Provision for income taxes				<b>2,824</b>
Net loss				<b>(6,958)</b>

	<b>For the three month period ended June 30, 2016</b>			
	<b>Jamieson Brands</b>	<b>Strategic Partners</b>	<b>Eliminations</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Revenue	47,024	25,443	(5,451)	67,016
Earnings from operations	6,849	1,395	-	8,244
Foreign exchange loss				(72)
Termination benefits and related costs				425
Other expenses				22
Preferred share accretion				(575)
Interest expense and other financing costs				5,718
Provision for income taxes				903
Net income				1,823

	<b>For the six month period ended June 30, 2017</b>			
	<b>Jamieson Brands</b>	<b>Strategic Partners</b>	<b>Eliminations</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Revenue	<b>109,567</b>	<b>46,512</b>	<b>(19,923)</b>	<b>136,156</b>
Earnings from operations	<b>15,235</b>	<b>3,486</b>	-	<b>18,721</b>
Foreign exchange loss				<b>418</b>
Termination benefits and related costs				<b>2,499</b>
Acquisition costs				<b>2,303</b>
Other income				<b>10,808</b>
Preferred share accretion				<b>28,796</b>
Interest expense and other financing costs				<b>228</b>
Provision for income taxes				<b>2,278</b>
Net loss				<b>(28,609)</b>

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	For the six month period ended June 30, 2016			
	Jamieson Brands	Strategic Partners	Eliminations	Total
	\$	\$	\$	\$
Revenue	91,426	46,750	(10,803)	127,373
Earnings from operations	9,779	2,428	-	12,207
Foreign exchange loss				21
Termination benefits and related costs				1,034
Other expenses				30
Preferred share accretion				13,817
Interest expense and other financing costs				11,505
Provision for income taxes				557
Net loss				(14,757)

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

Geographic information

Net income earned outside of Canada for the three and six month periods ended June 30, 2017 and 2016 represents an insignificant portion of total net income.

Information about major customers

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

	<u>Three months ended June 30,</u>		<u>Six months ended June 30,</u>	
	2017	2016	2017	2016
Customer 1	16.7%	19.5%	18.8%	20.0%
Customer 2	12.2%	12.0%	11.3%	12.5%
Customer 3	10.7%	9.7%	10.3%	9.8%
	<b>39.6%</b>	41.2%	<b>40.4%</b>	42.3%

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

**14. Earnings per share**

Basic earnings (loss) per share amounts are calculated by dividing the net earnings (loss) attributable to common shareholders of the Company by the weighted average number of shares outstanding during the year.

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

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

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Three months ended June 30,	2017			2016		
	Net income (loss)	Weighted average number of shares	EPS \$	Net income (loss)	Weighted average number of shares	EPS \$
<i>Basic</i>						
Continuing operations	(6,958)	520,253	(13.37)	1,823	520,253	3.50
<i>Diluted</i>						
Continuing operations	(6,958)	520,253	(13.37)	1,823	24,392,609	0.07
Six months ended June 30,						
<i>Basic</i>						
Continuing operations	(28,609)	520,253	(54.99)	(14,757)	520,253	(28.37)
<i>Diluted</i>						
Continuing operations	(28,609)	520,253	(54.99)	(14,757)	520,253	(28.37)

For the three and six month periods ended June 30, 2017 excludes the effect of approximately 2,548,193 options and 21,403,880 preferred shares on a post share split basis, that are anti-dilutive.

For the six month period ended June 30, 2016 excludes the effect of approximately 2,551,304 options and 21,321,052 preferred shares on a post share split basis, that are anti-dilutive.

**15. Future accounting standards issued but not yet effective**

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

*IFRS 9 "Financial Instruments: Classification and Measurement"*

In July 2014, the IASB issued the final version of IFRS 9, which reflects all phases of the financial instruments project and replaces IAS 39 and all previous versions of IFRS 9. The standard introduces new requirements for the classification and measurement of financial assets and financial liabilities, impairment and a new hedge accounting model with corresponding disclosures about risk management activity. IFRS 9 allows for early adoption, but the Company does not intend to do so at this time. IFRS 9 is effective for annual periods beginning on or after January 1, 2018.

*IFRS 16, "Leases"*

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

The Company is currently evaluating the impact of these new standards, interpretations and amendments on its Interim Financial Statements.

*IFRS 15 "Revenue from Contracts with Customers"*

In May 2014, the IASB issued IFRS 15 "Revenue from Contracts with Customers" ("IFRS 15"), which replaces IAS 18, "Revenue", IAS 11 "Construction Contracts" and various revenue related interpretations. IFRS 15 establishes a new control-based revenue recognition model where revenue is recognized at an amount that

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reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. IFRS 15 allows for early adoption, but the Company does not intend to do so at this time. The new revenue standard is effective for annual periods beginning on or after January 1, 2018.

Management is currently in the process of identifying major revenue streams to be assessed and reviewing the additional disclosures required by the standard. Management continues to evaluate the impact of IFRS 15 on the consolidated financial statements.

**16. Events after the reporting period**

On July 7, 2017, the Company completed the Offering. The Company's common shares are listed on the Toronto Stock Exchange under the stock symbol "JWEL".

Immediately prior to the closing of the Offering, the Company executed the following transactions (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 \$9,605, which dividends (net of Part XIII tax withholdings (the "Dividend Tax Withholding")) were satisfied through the issuance of promissory notes (the "Dividend Notes"); (ii) returned capital on the then outstanding Class A to V preferred shares in the aggregate amount of \$65,102, which return of capital was satisfied through the issuance of promissory notes (the "ROC Notes"); (iii) redeemed all of the outstanding Class W preferred shares in exchange for a note payable of \$94,592 ("Class W Promissory Note").

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; (ii) the Company filed articles of amendment to split each common share into 20.81010939 common shares, add a new class of preferred shares and eliminate the Class A common shares and Class A – W preferred shares. In addition, the Company amended and restated the Legacy Option Plan and entered into option exchange agreements (as described in Note 9).

The 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 offering price of \$15.75 per common share resulted in net proceeds to the Company of \$232,126, and \$52,160 to the selling shareholders after underwriting commissions of \$15,752. 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 Offering and closed on July 14, 2017 and raised additional net proceeds of \$42,643 after underwriting commission of \$2,363.

The closing of the Offering and the Over-Allotment Option constituted a partial sale event as described in Note 9 and, as a result, certain service based options and all performance based options granted under the Legacy Option Plan vested (amounting to an aggregate of 1,489,650 options to purchase common shares), resulting in an acceleration of expense of \$1,708.

On July 7, 2017, the Company granted under the LTIP 679,944 options to purchase common shares as described in Note 9.

On July 7, 2017, the Company used a portion of the proceeds from the Offering to: (i) make a loan to JLL, \$50,000 of which was used by JLL on the same day to repay a portion of the term loan; 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.

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Also on July 7, 2017 after closing of the Offering, CCMP transferred all of its common shares of the Company 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 to its shareholders, on a pro rata basis, including CCMP Capital Investors III (AV-3), L.P. and CCMP Capital Investors III (AV-3) Employee, L.P.