



## **Irwin Naturals**

### **Management's Discussion and Analysis**

#### **For the Year Ended December 31, 2020**

This Management's Discussion and Analysis ("MD&A") of the financial condition and performance of Irwin Naturals (the "Company" or "Irwin") for twelve-months ended December 31, 2020 and December 31, 2019 was prepared by management as of August 4, 2021. Throughout this MD&A, unless the context indicates or requires otherwise, the terms "the Company", "we", "us" and "our" means Irwin Naturals. This MD&A should be read in conjunction with our audited combined financial statements for the years ended December 31, 2020 and December 31, 2019 (collectively, the "Financial Statements"), including the accompanying notes thereto.

This MD&A has been prepared with reference to the MD&A disclosure requirements established under National Instrument 51-102 – *Continuous Disclosure Obligations* ("NI 51-102") of the Canadian Securities Administrators. This MD&A contains commentary from the Company's management regarding the Company's strategy, operating results, financial position and outlook. Management is responsible for the accuracy, integrity and objectivity of the disclosure contained in this MD&A and develops, maintains and supports the necessary systems and controls to provide reasonable assurance as to the accuracy of the comments contained herein.

Our board of directors (the "Board of Directors") and audit committee (the "Audit Committee") provide an oversight role with respect to all Company public financial disclosures. The Board of Directors approved the Financial Statements and MD&A after the completion of its review and recommendation for approval from the Audit Committee, which meets periodically to review all financial reports, prior to filing.

The Financial Statements and accompanying notes were prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the IFRS Interpretations Committee ("IFRIC") and include the accounts of the Company and its subsidiaries and the Company's interests in affiliated companies. All intercompany balances and transactions have been eliminated on consolidation. All dollar amounts are expressed in US dollars unless otherwise noted.

In addition to historical information, the discussion in this MD&A contains forward-looking statements. The discussion is qualified in its entirety by the "Cautionary Note Regarding Forward-Looking Statements" that follows.

## CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This MD&A contains forward-looking information and forward-looking statements within the meaning of Canadian securities legislation (“**forward-looking statements**”) including but not limited to:

- assumptions and expectations described in the Company’s critical accounting policies and estimates;
- the Company’s expectations regarding legislation, regulations and licensing related to the import, export, processing and sale of cannabis products by the Company, along with the market demand and pricing for such products;
- the ability to enter and participate in international market opportunities;
- product diversification and future corporate development;
- anticipated results of research and development;
- production capacity expectations including discussions of plans or potential for expansion of capacity at existing or new facilities;
- expectations with respect to future expenditures and capital activities;
- statements about expected use of proceeds from fund raising activities;
- the Company’s expectations regarding the adoption and impact of certain accounting pronouncements.

These forward-looking statements are made as of the date of this MD&A and the Company does not intend, and does not assume, any obligation to update these forward-looking statements, except as required under applicable securities legislation. Forward-looking statements relate to future events or future performance and reflect Company management’s expectations or beliefs regarding future events. In certain cases, forward-looking statements can be identified by the use of words such as “considers”, “plans”, “expects” or “does not expect”, “is expected”, “budget”, “scheduled”, “estimates”, “forecasts”, “intends”, “anticipates” or “does not anticipate”, or “believes”, or variations of such words and phrases or statements that certain actions, events or results “may”, “could”, “would”, “might” or “will be taken”, “occur” or “be achieved”, or the negative of these terms or comparable terminology. In this document, certain forward-looking statements are identified by words including “may”, “future”, “expected”, “will”, “intends”, and “estimates”. By their very nature forward-looking statements involve known and unknown risks, uncertainties and other factors, which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance, or achievements expressed or implied by the forward-looking statements. The Company provides no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements.

Risks related to forward-looking statements include, among other things, those outlined in “Risk Factors” and any other factors and uncertainties disclosed from time-to-time in the Company’s filings with the Canadian Securities Administrators, including in the listing statement dated August 13, 2021 (the “**Listing Statement**”). Although the Company has attempted to identify important factors that could cause actions, events or results to differ materially from those described in the forward-looking statements, there may be other factors that cause actions, events, or results to differ from those anticipated, estimated or intended. Given these uncertainties, readers are cautioned not to place undue reliance on such forward-looking statements.

## Company Overview

Irwin Naturals was incorporated in Nevada on January 23, 2002, and is based in Los Angeles, California. Irwin Naturals develops vitamins and other health supplements and distributes these products primarily in the United States and Canada through two main channels: health food stores and mass-market retailers.

Irwin has developed a streamlined production process where it formulates products in-house based on current trends and the available science and research on vitamins, minerals and botanicals. From there, Irwin has developed a sophisticated and efficient supply chain using various trusted contract manufacturers to produce and package the products. Irwin then stores all products on-site at its facility in Los Angeles, California or other overflow facilities, if needed, and then works with its retailers and sales team to distribute the product accordingly.

All branding, label design and marketing are done in-house by an experienced marketing and design team. These marketing strategies are then carried out by sales representatives who are spread out throughout the United States, giving Irwin the ability to keep track of varying trends as they emerge and evolve. Additionally, Irwin also has a small international division. The Company has a strong presence in health food stores nationwide with its Irwin Naturals and Nature's Secret brands, as well as strong presences within mass-market chains such as Wal-Mart, Costco, and CVS, and e-commerce retailers such as Amazon and iHerb wherein consumers will most likely see the Irwin Naturals and Applied Nutrition brands. More recently, Irwin Naturals launched a line of products containing FSHE ("full-spectrum hemp extract") with CBD. Since the initial launch of Irwin Naturals CBD soft-gels, Irwin has expanded into CBD topicals. Irwin Naturals currently distributes to more than 100,000 retail outlets.

### *Principal Products and Services*

The principal products of Irwin stem from the core brand of over 100+ all-liquid soft-gel products that were the bedrock of Irwin from its beginning. Irwin also features other brands such as Applied Nutrition. Applied Nutrition products have high visibility in the mass-market in the U.S., including: Green Tea Fat Burner; Libido-Max; 14-Day Acai Berry Cleanse; Liquid Collagen; Nature's Secret, a line of digestive care and cleansing products.

- Irwin Naturals - a line of multi-pronged, all-liquid soft-gel supplements targeted for the health and wellness of men and women. The line features over 100+ formulas focusing on weight management, sexual health, mood, brain health and more. The brand has both national and international distribution in both the mass-market, specialty channels and e-commerce.
- Irwin Naturals CBD - a broad range of CBD ingestible and topical products under the flagship brand starting in late 2018. Derived from FSHE these CBD products have gained national distribution within the U.S. ranging from health food specialty retailers like Vitamin Shoppe to mass-market retailers like CVS.
- Applied Nutrition – a dynamic brand featuring products such as Green Tea Fat Burner that has retailed in Costco for over 15 years, Libido-Max, one of the top selling sexual health products in the U.S. and Liquid Collagen, the number 1 best-selling Liquid Collagen in the U.S.
- Nature's Secret – brand with products that address total body wellness. Using delicate mixtures of healing herbs and botanicals to address imbalance itself, not just the symptoms of imbalance.

Irwin has grown using a strategy consisting of keeping advertising spending low, and using those savings to purchase higher quality ingredients to make its products more effective, resulting in an extremely loyal following of its customers.

### *Marketing, Sales and Business Development*

Irwin has a robust salesforce located throughout the U.S. Irwin has grown from a grass-roots level and penetrated ‘mom and pop’ health food and specialty store throughout the U.S., as well as mass-market retailers such as Wal-Mart, SAMs Club, Costco, BJ’s, CVS and Walgreens. Irwin has also grown internationally gaining distribution throughout Canada and Russia. Irwin also focuses on growing its online business through platforms including Amazon, Wal-Mart.com, Costco.com, iherb.com and IrwinNaturals.com.

### *Branding Strategy*

The Irwin’s brand strategy is to develop best quality supplement products at affordable prices that are accessible to the masses, focused on superior potency, bioavailability and absorption. Irwin’s extensive line of 100+ supplements use an all-liquid soft-gel delivery that offers many advantages over hard tablets and capsules that can often be difficult to digest. Irwin’s goal is to bring its consumers targeted formulas with quality ingredients, at effective levels, in high-end packaging at affordable prices that appeal to its broad ranging demographic. This strategy is also the foundational pillar for Irwin’s other brands across a diverse range of categories.

### *Research and Development*

Irwin prides itself in creating multi-pronged solution-oriented products that address a multitude of health needs for men and women across all age categories and demographics. Irwin develops novel formulations that fill the white space in the health and wellness industry. Irwin applies cutting edge and industry-leading scientific research to each of its formulations, seeking to advance the standard within the industry.

Over the years Irwin has employed persons with backgrounds in botanical science, naturopathic medicine and biology to formulate its products. These experienced professionals are able to take the input from the marketing and sales team in terms of what consumers and the trade are demanding, and use it to choose the right mixture of vitamins, minerals and botanicals to appeal a broad demographic. This formulation is backed by an experienced team of legal and compliance professionals to ensure each product’s manufacturing and advertising are compliant with current FDA, FTC and state regulations. From there, Irwin uses its supply chain working in tandem with contract manufacturers to produce and package the products. Irwin has rigorous testing protocols in place, with all of its products being rigorously third-party tested for both purity and potency by third-party accredited labs.

### *Production*

Irwin has formulated almost all of its complex formulas in-house with an experienced team composed of naturopathic doctors, experts in the field of botanicals and biology and experts in the technical aspects of dietary supplement manufacturing. Irwin uses high-caliber contract manufacturers to produce all of its products. Irwin does not produce its products itself. Once the initial formulas are complete, Irwin works hand in hand with its experienced contract manufacturers to make samples and ensure that the specific product will be functional for its intended purpose. When formulating these products, Irwin stays on the

cutting edge of consumer interests and combines either trending ingredients or classic botanicals with other complimentary ingredients, to make the product as efficacious or enticing as possible. Irwin is known for packing its formulas with a complex blend of minerals, vitamins and botanicals.

During the formulation stage, Irwin uses its extensive relationships with ingredient suppliers to source top-quality ingredients for the featured ingredients in its products. Irwin's formulation experts generally pair ingredients that are complimentary to each other and can be combined without negative effects to the individual ingredients. If there are questions about the stability of certain ingredients or about how the ingredients act in conjunction to each other, Irwin works with its contract manufacturer to mix a pilot batch of product in its final form so it can be tested to ensure quality. Before production starts, Irwin works closely with its contract manufacturers who are able to order the various ingredients, and primary packaging directly in order take advantage of a more seamless supply chain, and take advantage of bulk discounts that are then passed on to Irwin. For the FSHE used by Irwin for its products, Irwin has taken a more active role in sourcing and ordering those ingredients directly.

The actual method of producing Irwin's soft-gel, tablet and liquid products are all carried locally in Southern California. All contract manufacturers used by Irwin are audited by Irwin before production can begin, and they are all compliant with federal and state cGMP regulations. Irwin's products are made by contract manufacturers who are knowledgeable and experienced in their craft using proprietary processes owned and controlled by the individual manufacturers. The processes used to create these food and dietary supplement products are all consistent with the industry standards to create such products.

Throughout the production process, Irwin is updated throughout the process and physically inspects the processes at the local contract manufacturers. Once production is complete, Irwin receives samples of the products that go through quality checks and testing to ensure the product meets Irwin's specifications and are not adulterated. Once the products are manufactured, they are mostly delivered to Irwin's warehouse in Los Angeles, California where they are then shipped out, either directly or indirectly, to customers throughout the U.S.

### *Intellectual Property*

As a consumer product company, Irwin's brands, product names and trade dress are a cornerstone of the brand. Our packaging is unique to our brand and lets our loyal customers know where to find our products on the shelves. We take the protection of these trademarks very seriously and routinely search the market for potential infringers. Irwin's trademarks are valid until such trademark is no longer used in commerce.

### *Employees*

As of December 31, 2020, Irwin Naturals employs roughly 111 individuals mostly located at their headquarters in Los Angeles, California with a team of sales representatives spread throughout the United States.

### *Leases*

Irwin's headquarters consist of an office building which most of its employees work out of and has an attached warehouse where most of Irwin's finished goods are stored until they are sent out for delivery. The term of the lease on this space expires on July 31, 2022. Irwin has an option to renew the lease for a 5 year period that must be exercised by October 31, 2021. The landlord is not a related person of the issuer.

### *Business Cycles*

Irwin's business is not inherently cyclical or seasonal. Although there may be times in the year where certain products seem to be more popular (for example weight management products generally increase in popularity around the new year), overall, the demand for Irwin's products is consistent throughout the year.

### **Summary of Trends and Factors Affecting Performance**

**Change in Revenue Mix:** Irwin's strategic decision to establish a CBD product line in 2018 helped grow revenue in both fiscal years 2019 and 2020 and will drive sales going forward. Irwin generated \$7.0 million and \$9.6 million in net CBD product sales respectively for fiscal years 2019 and 2020. CBD products sold were primarily softgel supplements sold primarily through Irwin's network of health food stores and some retail pharmacy chains. CBD softgel supplements are forecasted to grow substantially going forward as nationwide outlets and platforms may enter the CBD market. These retailers may choose Irwin as one of their vendors based on their long-standing relationship with Irwin Natural and sales success with Irwin's non-CBD products.

**Introduction of new CBD product lines:** In addition to developing and adding new CBD products, Irwin added new products to its non-CBD product portfolio including topicals, balms, roll-ons and creams.

**Competition:** Irwin continues to be a successful seller of CBD products in the mass market and HFS retail channels. The Company's competitive positioning reflects Irwin's cult status and brand loyalty with consumers, as well as the Company's competitive pricing, which is one of the best value propositions in the market. Irwin is expected to capture more CBD market share as other traditional and online retailers, such as Wal-Mart, Costco and Amazon, are expected to begin selling CBD products.

**COVID-19 Pandemic:** On January 30, 2020, the World Health Organization (the "WHO") declared the ongoing COVID-19 outbreak a global health emergency, and on March 11, 2020, the WHO expanded its classification of the outbreak to a worldwide pandemic. Federal, state, provincial and municipal governments in North America enacted measures to combat the spread of COVID-19. The COVID-19 outbreak continues to evolve and is causing business disruptions across the entire global economy and society. The Company is closely monitoring the evolution of COVID-19. The Company has taken various measures to prioritize the health and safety of our employees, customers and partners, including restricted work travel and site access and improved safety and hygiene, including monitoring and following the most up to date guidelines.

The situation is dynamic and the ultimate duration and magnitude of the impact of COVID-19 on the economy and the full financial effect on the Company's business, financial position and operating results remain uncertain at this time. In addition, it is possible that estimates in the Company's combined financial statements will change in the near term as a result of COVID-19 and the effect of any such changes could be material, which could result in, among other things, impairment of long-lived assets. The Company is closely monitoring the impact of the pandemic on all aspects of its business.

To date, COVID-19 has not materially impacted Irwin's ability to meet customer demand and product delivery under existing distribution agreements despite a very challenging operating environment, particularly with traditional retailers.

### **Selected Combined Financial Information:**

The following is a summary of the Company's operational highlights for the years ended December 31, 2020 and December 31, 2019.

<i>(in thousands)</i> Combined Statement of Profit and Comprehensive Income	Twelve months ended December 31			
	2020	2019	\$ Change	% Change
Non-CBD operating revenue	79,735	80,816	(1,081)	-1.3%
CBD operating revenue	9,642	7,045	2,597	36.9%
Total Operating Revenue	89,377	87,861	1,516	1.7%
Gross Profit	36,501	38,897	(2,396)	-6.2%
Income from Operations	7,658	6,357	1,301	20.5%
Comprehensive Income	7,240	5,923	1,317	22.2%
<b>Statement of Financial Position</b>				
Total assets	36,421	40,817	(4,396)	-10.8%
Liabilities	21,649	26,335	(4,686)	-17.8%

### Operating Revenue

2019 - Operating revenue increased to \$87.9 million reflecting growing revenue from Irwin's newly launched cannabidiol ("CBD") softgel supplement products established in 2018. Sales of Irwin's CBD product portfolio grew rapidly during the first full year of operations by leveraging Irwin's extensive distribution network among health food stores and the largest retail pharmacy chains in the U.S. Irwin generated \$7.0 million in CBD sales for fiscal year 2019 which was 8% of 2019 operating revenue. Net non-CBD sales remained relatively unchanged year over year at \$80.8 million for fiscal year 2019 reflecting the cult brand status and customer loyalty of Irwin's traditional products despite very limited sales and marketing expenses.

2020 - Operating revenue increased moderately by 1.7% to \$89.4 million primarily due to continued revenue growth from Irwin's newly launched CBD softgel supplement products. Net CBD product sales grew over 36% in fiscal year 2020 to approximately \$9.6 million compared to \$7.0 million in 2019, reflecting continued adoption by retailers of CBD products. Net non-CBD sales remained relatively unchanged at \$79.7 million for fiscal year 2020 due to continued customer loyalty and recurring revenue despite marginal increases in sales promotions and a reduction in retail foot traffic due to COVID-19.

### Gross Profit

2019 - Gross profit in 2019 decreased by approximately 4.6% to \$39.0 million primarily due to higher sales' promotion expenses related to Irwin's CBD product line.

2020 - Gross profit decreased by approximately 6.2% to \$36.5 million, primarily due to higher inventory obsolescence provision expense related to new CBD products under the HydroCanna and FloChi brands that experienced less than anticipated acceptance from large retailers during the COVID-19 pandemic.

### Income from Operations

2019 - Income from operations decreased compared to 2018 to \$6.4 million primarily due to lower gross profit and higher selling, general and administrative expenses reflecting increased spending on developing and producing new CBD products.

2020 - Income from operations increased by 20.5% to \$7.7 million due to a \$3.8 million decrease in selling, general and administrative expenses primarily due to anticipated compensation for Paycheck Protection Program (“PPP”) loan forgiveness (ref “PPP Loan” below), as well as substantial decrease in travel and trade show costs.

### Comprehensive Income

2019 - Comprehensive income decreased to \$5.9 million primarily due to increased expenses related to new CBD products.

2020 - Comprehensive income increased by 22.2% to \$7.2 million primarily due to increased income generated from a rapidly growing CBD product line and aforementioned decreases to selling, general and administrative expenses due to PPP support.

### **Summary of Combined Quarterly Results:**

The following is a summary of selected unaudited combined financial information for each of the eight most recently completed quarters prepared in accordance with IFRS.

<i>(in thousands)</i>	<b>2020</b>				<b>2019</b>			
<b>Combined Statement of Profit and Comprehensive Income</b>	<b>Q4</b>	<b>Q3</b>	<b>Q2</b>	<b>Q1</b>	<b>Q4</b>	<b>Q3</b>	<b>Q2</b>	<b>Q1</b>
Operating Revenue	24,487	24,712	20,622	19,556	23,227	22,049	21,500	21,085
Income From Operations	2,231	1,817	2,556	1,054	1,495	1,665	1,757	1,440
Comprehensive Income	2,145	1,673	2,472	950	1,397	1,525	1,604	1,397
<b>Statement of Financial Position</b>								
Total assets	36,421	41,957	39,408	37,796	41,967	40,168	35,091	36,143
Total liabilities	21,649	27,513	24,256	24,799	26,335	25,643	21,655	21,407

### Operating Revenue

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

- accelerated demand for CBD softgel supplement product sales;
- an expanding distribution network;
- the impact of innovation within our core product portfolio;
- the timing and volume of sales promotions and discounts;
- COVID-19 and the impact to foot-traffic at retailers;

- sales and marketing campaigns;
- seasonality.

In Q1 and Q2 2020, operating revenue was less than 2019 primarily due to the onset of the COVID pandemic and its impact on retail foot traffic and sales appointments requiring travel. 2020 operating revenue picked up in the second half of the year primarily due to pent up demand from the first half and seasonal impacts.

### Income from Operations

Income from Operations for the last eight quarters were impacted by factors including the following:

- operating revenue factors noted above;
- employee compensation and staffing;
- travel and trade show costs;
- timing of marketing expenses.

Income from operations fluctuated in 2020 in comparison to 2019, which was relatively consistent. Fluctuations in 2020 were primarily due to furloughs granted in Q2 due to COVID and recognition of PPP loan forgiveness in Q4.

Total assets decreased from \$42.0 million at Q4 2019 to \$36.4 million at Q4 2020 primarily due to an increase in inventory obsolescence reserve related to new CBD products under the HydroCanna and FloChi brands that experienced less than anticipated acceptance from large retailers during the COVID-19 pandemic.

Total liabilities decreased from \$26.3 million at Q4 2019 to \$21.6 million at Q4 2020 primarily due to a reduction in line of credit borrowings, a decrease in lease liabilities, and the timing of large payments to the Company's primary product manufacturer.

### **Liquidity and Capital Resources**

#### Summary of Cash Flows for the twelve months ended 2020 and 2019

<i>(in thousands)</i>	<b>Twelve months ended</b>		<b>\$ Change</b>	<b>% Change</b>
	<b>2020</b>	<b>2019</b>		
Cash, beginning of period	<b>371</b>	<b>5</b>	<b>366</b>	<b>7320%</b>
Cash flows from (used in)				
Operating activities	8,218	3,394	4,824	142%
Investing activities	(81)	377	(458)	(121%)
Financing activities	(8,066)	(3,405)	(4,661)	137%
Cash, end of period	<b>442</b>	<b>371</b>	<b>71</b>	<b>19%</b>

#### Cash Flows from Operating Activities

Irwin generated \$8.2 million and \$3.4 million in operating cash flows for fiscal years 2020 and 2019, respectively, due to higher operating revenue from CBD sales, partially offset by higher working capital requirements for CBD product inventory.

Irwin continues to generate substantial operating cash flow reflecting:

- **Consistent and growing revenue stream:** The Company has a steady, growing revenue base reflecting Irwin's loyal customer base that continues to purchase Irwin products on a consistent basis year over year.
- **Competitive pricing:** Irwin sells high quality products with comprehensive formulas that are competitively priced for the mass market thereby building customer loyalty.
- **Strong operating results and profitability:** Irwin's strong operating results generate significant return on sales and steady cash flow from operations that enhances the Company's liquidity position.
- **Healthy working capital position:** Irwin defines net working capital as total current assets less total current liabilities. The Company has a consistently strong net working capital position with a year-end balance of over \$13 million in 2020 and over \$12 million in 2019. The Company's accounts receivables are of high quality with strong credit counterparties including large retailers. Irwin's allowance for doubtful accounts provision has been less than 0.5% of operating revenue for both fiscal years 2020 and 2019. A valuation allowance is provided for obsolete and slow-moving inventory to write down the cost to net realizable value (market), if necessary. The Company's net inventory balance decreased from \$19.5 million at December 31, 2019 to \$14.6 million at December 31, 2020 primarily due to a \$2.9 million increase in reserves for obsolete and slow-moving inventory related to the underperformance of new CBD products under the HydroCanna and FloChi brands that experienced less than anticipated acceptance from large retailers during the COVID-19 pandemic. Trade and other payables decreased from \$13.2 million at December 31, 2019 to \$11.6 million at 2020 year-end primarily due to the timing of payments to the Company's primary product manufacturer.

#### Cash Flows from Investing Activities

Irwin has a relatively low fixed asset base with a net fixed asset balance of \$0.3 million as of year-end 2020 reflecting the asset-light nature of the Company's business model, which includes the utilization of right-to-use assets obtained through leases. The Company develops its products internally and outsources the raw material purchasing, production and packaging to contract manufacturers, who in turn produce and ship finished products to Irwin, who in turn distribute products to their customers. Based on this traditional consumer brand marketing model, Irwin has limited capital expenditure commitments in the future.

#### Cash Flows from Financing Activities

The Company used \$4.7 million additional cash on 2020 financing activities compared to 2019 primarily due to net repayments on the Company's line of credit.

In 2019, the Company maintained a line of credit with a financial institution in the amount equal to the lesser of \$20.0 million or the Company's borrowing base, as defined in the agreement. The Company has the option of borrowing under a LIBOR loan (LIBOR based on the interest period selected by the Company) or a Prime loan. Under a LIBOR loan, borrowings bear interest equal to the greater of 1.35% or the 30-day LIBOR interest rate plus 1.35% (3.10% at December 31, 2019). Under a Prime loan, borrowings bear interest equal to the greater of 2% or the fluctuating Prime rate minus 1% (3.75% at December 31, 2019). Irwin had substantial liquidity at December 31, 2019 with \$10.8 million in remaining borrowing availability under the credit facility.

In September 2020, the Company renewed the line of credit with the same financial institution in the amount of the lesser of \$17.5 million or the Company's borrowing base, as defined in the agreement. The Company has the option of borrowing under a LIBOR loan (LIBOR based on the interest period selected by the Company) or a Prime loan. Under LIBOR loans, borrowings bear interest at the greater of 1.35% or 30-day LIBOR interest rate plus 1.35% (1.5375% at December 31, 2020). Under Prime loans, borrowings bear interest at the greater of 2% or the fluctuating Prime rate minus 1% (2.25% at December 31, 2020). The Company is in negotiation to replace the benchmark rate with an alternative benchmark rate with the financial institution as part of IBOR reform. The line of credit is secured by all of the Company's assets, is guaranteed by the Company's shareholder. Irwin had substantial liquidity at December 31, 2020 with \$10.0 million in remaining borrowing availability under the credit facility.

In May 2021, the Company amended the provision requiring that Klee Irwin, the majority shareholder of the Company, retain at least a 75% interest in the Company to at least a 55% interest. Furthermore, in July 2021, Irwin and the financial institution executed an amendment to their agreement that extends the line of credit to December 1, 2022. The Company has remained compliant with all restrictive covenants as of December 31, 2020 and 2019.

**PPP Loan:** On April 20, 2020, the Company received loan proceeds in the amount of \$1.8 million (the “**Irwin PPP Loan**”) under the Paycheck Protection Program (“**PPP**”). The PPP, established as part of the Coronavirus Aid, Relief and Economic Security Act (“**CARES Act**”), provides for loans to qualifying businesses for amounts up to 2.5 times the average monthly payroll expenses of the qualifying business. Funds received under the PPP may only be used for payroll costs and costs used to continue group health care benefits, mortgage payments, rent, utilities and interest on other debt obligations incurred before February 15, 2020. The funds shall be spent within 24 weeks of the date of initial disbursement of the Irwin PPP Loan. Under the terms of the PPP, certain amounts of the Irwin PPP Loan may be forgiven if they are used for qualifying expenses as described in the CARES Act. The unforgiven portion of the Irwin PPP Loan is payable over two years at an interest rate of 1%, with a deferral of payments for the first six months. The Company used all of the proceeds for purposes consistent with the PPP and it was reasonably assured that the Company met all the conditions for forgiveness on the entire loan.

In accounting for the PPP loan and the expected forgiveness, the Company chose to apply guidance from IAS 20 (Accounting for Government Grants). IAS 20 provides a comprehensive accounting model for government grants, and the PPP loan forgiveness can be presented as either 1) Other Income, or 2) a reduction in the expenses the PPP loan was intended to defray. The Company has chosen to credit the entire loan proceeds as a reduction to payroll costs and group health care benefits costs, which are included in Selling and Marketing, and General and Administrative expenses on the combined statements of profit and loss and comprehensive income.

In June, 2021, the Company received notice from the Small Business Administration that the loans received in the amount of \$1.8 million under the PPP have been forgiven.

## **Fixed Obligations:**

### **Rent Expense**

The Company leases its office and warehouse facilities, and office equipment under various operating leases which expired or will expire between February 2020 and July 2022. Under the facility lease agreement, the Company is also obligated to pay real estate taxes, general liability insurance, property insurance and periodic rent escalation.

Aggregate future minimum rent and lease payments for each of the remaining years are as follows:

2021	\$ 1.4 million
2022	\$ 0.8 million
2023	\$ -

Rent expense for office and warehouse facilities for the year ended December 31, 2020 and 2019, totaled \$1.5 million and \$1.4 million respectively.

## **Off-Balance Sheet Items**

### Claims and Litigation

The Company is party to litigation from time to time in the normal course of business. The Company accrues liabilities related to litigation only when it concludes that it is probable that it will incur costs related to such litigation and can reasonably estimate the amount of such costs. In cases where the Company determines that it is not probable, but reasonably possible that it has a material obligation, it discloses such obligations and the possible loss or range of loss, if such estimate can be made. The Company maintains insurance to cover certain actions and believes that resolution of such litigation in the normal course of business will not have a material adverse effect on the Company's combined financial statements.

### *Batista v Irwin Naturals, Case No. 2:20-cv-10737 (U.S. District Court, Central District California)*

Isabella Batista filed a class action lawsuit in the United States District Court for the Central District of California on November 24, 2020. Batista alleges that Irwin makes false and misleading claims on the packaging of its nutritional supplement product Ginkgo Smart. Batista alleges that ginkgo biloba, Ginkgo Smart's main ingredient, does not improve cognitive function, memory or concentration and therefore Ginkgo Smart's label claims are false and misleading. Batista seeks to represent a nationwide class of consumers and a New York subclass who purchased Ginkgo Smart. Batista lives, and purchased the product, in New York. Batista's prayer for relief includes damages, restitution, and/or disgorgement; compensatory and punitive damages; declaratory and injunctive relief; reasonable attorneys' fees and expenses and costs of the suit; and prejudgment interest on all amounts awarded. Irwin submitted its response to plaintiff's opposition to the motion on March 26, 2021.

Batista did not allege an enumerated amount of damages as is common with consumer class actions, as such amount is dependent on whether a class is certified, the potential size of the class and the sales of the product. In order to obtain subject matter jurisdiction with the Federal Court, Batista alleged her claim was

over \$5 million. Notwithstanding the foregoing, Batista is asking the court or a jury to determine the amount of potential damages and/or attorney fees. Certain New York state statutes provide a minimum of fifty (\$50 or \$500) per consumer in a class action lawsuit, but any potential total amount is dependent upon a class being certified and an adverse ruling against Irwin.

### **Supplier Agreements**

In 2019 the Company entered into a 36-month supply agreement for CBD related materials ending July 2022. The agreement does not require any annual commitments. The approximate outstanding balance as of December 31, 2020 is \$0.4 million based on current prices and zero for 2019.

Irwin has no other guarantee contracts, derivative instruments, off-balance sheet arrangements or contingent liabilities or obligations.

### **Related Party Transactions**

#### Note Receivable from Shareholder

In March 2018, the Company issued a promissory note receivable to its majority shareholder of the Company in the amount of \$1.2 million that was outstanding as of December 31, 2019. The note receivable was due and payable on March 15, 2021. The Company settled the note through a reduction in distributions to the shareholder on December 31, 2020, ahead of the maturity date of March 15, 2021. The note bears interest at the lower of the applicable federal term rate or the alternate federal rate using monthly compounding in effect for the month in which the note is made (2.18%). Interest payments were due on the last day of each year that the balance is outstanding.

#### Shareholder Distributions

The Company distributed a total of \$7.0 million to its majority shareholder in 2020 and \$5.9 million in 2019.

#### Affiliate

5310 Holdings, LLC (“5310 Holdings”) was formed as a California limited liability company based in Los Angeles, California to hold intellectual property related to products sold by Irwin Naturals. Irwin Naturals has a licensing agreement for worldwide licenses to use, market, sell and promote certain trademarks held by 5310 Holdings. 5310 Holdings has been determined to be a “related party” of Irwin Naturals.

These combined financial statements include the accounts of the Company and 5310 Holdings, LLC. This presentation reflects a common-controlled combination of previously existing entities. Control exists when the Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The financial statements of the entities are included in the combined financial statements from the date that control commences until the date that control ceases. Irwin Naturals is the primary beneficiary of 5310 Holdings through the use of trademarks held by that entity. 5310 Holdings has no operations apart from ownership of the trademarks, and these intangibles are fully integrated into the operations of Irwin Naturals. Irwin Naturals has not provided financial or other support to 5310 Holdings in the years ended December 31, 2020 and 2019.

As of December 31, 2020 and 2019, amounts included in the combined financial statements include intangible assets of \$0.1 million and additional-paid-in-capital of \$0.1 million. Apart from these amounts,

creditors and beneficial holders of 5310 Holdings have no recourse to the assets or general credit of Irwin Naturals. All intra-company transactions, balances, income and expenses were eliminated for presentation.

### **Authorized and Issued Share Capital**

The Company is authorized to issue 1,500,000 of common and shares at \$0.001 par value, at the discretion of the Board of Directors. As of December 31, 2020, there were 1,000,000 shares outstanding (2019 - 1,000,000 shares).

The Company had basic and diluted income from operations per common share of \$7.66 for the year ended December 31, 2020 (2019 - \$6.36).

The Company had basic and diluted earnings per common share of \$7.24 for the year ended December 31, 2020 (2019 - \$5.92).

The Company made distributions per common share of \$6.95 for the year ended December 31, 2020 (2019 - \$5.85).

### **Critical Accounting Estimates and Judgements**

IFRS requires management to make judgements, estimates and assumptions that affect the reported amounts of assets, liabilities, and contingent liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period.

Estimates and assumptions are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can differ from these estimates.

Significant assumptions about the future and other sources of estimation uncertainty that management has made at the end of the reporting period, that could result in a material adjustment to the carrying amounts of assets and liabilities in the event that actual results differ from assumptions made, relate to, but are not limited to, the following:

- i) *Fair value of equity-like instruments:* Fair value of financial assets and financial liabilities recorded in the combined statements of financial position, which cannot be derived from active markets, are determined using a variety of techniques including the use of valuation models. The inputs to these models are derived from observable market data where possible, but where observable market data is not available, judgment is required to establish fair values. Judgment includes, but is not limited to, consideration of model inputs such as volatility, estimated life, and discount rates.
- ii) *Estimating variable consideration for returns and sales promotion incentives:* The Company uses historical customer return data to determine the expected return percentages. These percentages are applied to determine the expected value of the variable consideration. Any significant changes in experience as compared to historical return pattern will impact the expected return percentages estimated by the Company.

The Company provides for estimated payments to its customers based on various trade programs and sales promotional incentives. The Company estimates the most likely amount payable for its largest customers 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.

- iii) *Valuation of non-cash transactions:* The valuation of shares and other equity instruments issued in non-cash transactions. Generally, the valuation of non-cash transactions is based on the value of the goods or services received. When non-cash transactions are entered into with employees and those providing similar services, the non-cash transactions are measured at the fair value of the consideration given up using market prices.
- iv) *Amortization:* Amortization of property, plant and equipment and intangible assets are dependent upon the estimated useful lives, which are determined through the exercise of judgment. The assessment of any impairment of these assets is dependent upon estimates of recoverable amounts that take into account factors such as economic and market conditions and the useful lives of assets.
- v) *Inventory:* Inventory is carried at the lower of cost or net realizable value. The determination of net realizable value involves significant management judgement and estimates, including the estimation of future selling prices.

#### COVID-19 estimation uncertainty

On March 11, 2020, the World Health Organization declared the outbreak of the novel coronavirus (COVID-19) a global pandemic. This has resulted in governments worldwide, including the American government, to enact emergency measures to combat the spread of the virus. These measures, which include social distancing, the implementation of travel bans, and closures of non-essential businesses, have caused material disruption to businesses globally, resulting in an economic slowdown. The production and sale of hemp and cannabidiol (“CBD”) have been recognized as essential services across the United States. As of December 31, 2020, the Company has observed negative downward pressure on its sales growth due to the COVID-19 pandemic.

The situation is dynamic and the ultimate duration and magnitude of the impact of COVID-19 on the economy and the full financial effect on the Company’s business, financial position and operating results remain uncertain at this time. In addition, it is possible that estimates in the Company’s combined financial statements will change in the near term as a result of COVID-19 and the effect of any such changes could be material, which could result in, among other things, impairment of long-lived assets. The Company is closely monitoring the impact of the pandemic on all aspects of its business.

#### **Summary of Significant Accounting Policies**

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

#### **Risk Factors**

A full list of Risk Factors can be referenced in the listing statement dated August 13, 2021 (the “Listing Statement”).