LXRandCo, Inc.

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

Fourth Quarter – Three-Month Period Ended December 31, 2017

March 21, 2018

The following management's discussion and analysis ("MD&A") is prepared as of March 20, 2018 and is intended to assist readers in understanding the financial performance and financial condition of LXRandCo, Inc. (together with its consolidated subsidiaries, referred to herein as "LXRandCo" or the "Company"). This MD&A should be read in conjunction with the audited consolidated financial statements of LXRandCo and notes thereto for the year ended December 31, 2017.

On June 9, 2017, Gibraltar Growth Corporation ("Gibraltar Growth"), the predecessor of the Company, completed the acquisition of LXR Produits de Luxe International Inc. ("LXR International") (the "LXR Acquisition") and closed a private placement (the "Private Placement") of Class B shares (each, a "Class B Share") for gross proceeds of $25.0 million. Gibraltar Growth, a special purpose acquisition corporation ("SPAC") whose Class A restricted voting shares (each, a "Class A Restricted Voting Share") and warrants (each, a "Warrant") were listed on the Toronto Stock Exchange (the "TSX"), was incorporated under the *Business Corporations Act* (Ontario) for the purpose of effecting an acquisition of one or more businesses or assets, by way of merger, amalgamation, share exchange, asset acquisition, share purchase, reorganization, or other similar business combination involving Gibraltar Growth, referred to as its "qualifying acquisition". The LXR Acquisition constituted Gibraltar Growth's qualifying acquisition. In connection with the closing of the LXR Acquisition, Gibraltar Growth was renamed to LXRandCo, Inc.

While Gibraltar Growth was the legal acquirer of LXR International, LXR International was identified as the acquirer for accounting purposes. The LXR Acquisition is outside the scope of IFRS 3, Business Combinations, and it is accounted for as a share-based payment transaction in accordance with IFRS 2, Share-based Payments ("IFRS 2"). LXRandCo is considered to be a continuation of LXR International with the net identifiable assets of Gibraltar Growth deemed to have been acquired by LXR International in exchange for shares of LXR International. Under IFRS 2, the transaction is measured at the fair value of the shares deemed to have been issued by LXR International in order for the ownership interest in the combined entity to be the same as if the transaction had taken the legal form of LXR International acquiring 100% of Gibraltar Growth. Any difference in the fair value of the shares deemed to have been issued by LXR International and the fair value of Gibraltar Growth's identifiable net assets represents a service received by LXR International, recorded through profit and loss. LXR International's historical financial statements as of and for the periods ended prior to the completion of the LXR Acquisition are presented as the historical financial statements of LXRandCo prior to the date of the completion of the LXR Acquisition.

Basis of Presentation

The consolidated financial statements of LXRandCo have been prepared in accordance with IFRS. All amounts are presented in Canadian dollars, unless otherwise stated. LXRandCo's fiscal year is ending December 31.

The consolidated financial statements and notes thereto for the year ended December 31, 2017 and this MD&A were approved by the Board of Directors on March 20, 2018.

Non-IFRS Measures

This MD&A makes reference to certain non-IFRS measures. These measures are not recognized measures under IFRS, do not have a standardized meaning prescribed by IFRS and are therefore unlikely to be comparable to similar measures presented by other companies. Rather, these measures are provided as additional information to complement IFRS measures by providing further understanding of LXRandCo's results of operations from management's perspective. Accordingly, these measures should not be considered in isolation nor as a substitute for analysis of LXRandCo's financial information reported under IFRS. Management uses non-IFRS measures including: "EBITDA", "Adjusted EBITDA", "Adjusted EBITDA Margin" and "Adjusted Net Loss". These non-IFRS measures are used to provide investors with supplemental measures of LXRandCo's operating performance and thus highlight trends in LXRandCo's core business that may not otherwise be apparent when relying solely on IFRS measures. Management also believes that securities analysts, investors and other interested parties frequently use non-IFRS measures in the evaluation of issuers. Management also uses non-IFRS measures in order to facilitate operating performance comparisons from period to period, to prepare annual operating budgets and forecasts and to determine components of management compensation. For a definition of "EBITDA", "Adjusted EBITDA", "Adjusted EBITDA Margin" and "Adjusted Net Loss", and a reconciliation of these non-IFRS measures to IFRS measures, see "How Management Assesses the Performance of LXRandCo" and "Selected Consolidated Financial Information of LXRandCo" sections of this MD&A.

Caution Regarding Forward-Looking Statements

Certain statements in this MD&A are prospective in nature and constitute forward-looking information and/or forward-looking statements within the meaning of applicable securities laws (collectively, "**forward-looking statements**"). Forward-looking statements include, but are not limited to, statements concerning the financial results and condition of the Company, expectations regarding market trends, overall market growth rates and the Company's growth rates, future objectives and strategies to achieve those objectives, including, without limitation, new store openings, store productivity, margin improvements, e-Commerce penetration and future acquisitions, as well as other statements with respect to management's beliefs, plans, estimates and intentions, and similar statements concerning anticipated future events, results, outlook, circumstances, performance or expectations that are not historical facts.

Forward-looking statements generally, but not always, can be identified by the use of forward-looking terminology such as "outlook", "objective", "may", "could", "would", "will", "expect", "intend", "estimate", "forecasts", "project", "seek", "anticipate", "believes", "should", "plans" or "continue", or similar expressions suggesting future outcomes or events and the negative of any of these terms.

Forward-looking statements reflect management's current beliefs, expectations and assumptions and are based on information currently available to management, which includes assumptions about continued revenues based on historical past performance, management's historical experience, perception of trends and current business conditions, expected future developments and other factors which management considers appropriate. With respect to the forward-looking statements included in this MD&A, management has made certain assumptions with respect to, among other things, the Company's ability to meet its future objectives and strategies, the Company's ability to achieve its future projects and plans and that such projects and plans will proceed as anticipated, the expected growth of the Company's e-Commerce revenue, the expected number and timing of store openings in North America and internationally, entering into new and/or expanded retail partnerships in North America and internationally, the Company's ability to source products, the Company's competitive position in the vintage luxury industry, and beliefs and intentions regarding the ownership of material trademarks and domain names used in connection with the marketing, distribution and sale of the Company's products as well as assumptions concerning general economic and market growth rates, currency exchange and interest rates and competitive intensity.

Readers are cautioned not to place undue reliance on forward-looking statements, as there can be no assurance that the future circumstances, outcomes or results anticipated or implied by such forward-looking statements will occur or that plans, intentions or expectations upon which the forward-looking statements are based will occur. By their nature, forward-looking statements involve known and unknown risks and uncertainties and other factors that could cause actual results to differ materially from those contemplated by such statements. Factors that could cause such differences include, but are not limited to, those factors described under the headings "Risk Factors" and "Management's Discussion and Analysis of LXR – Risk Factors" in Gibraltar Growth's final non-offering long form prospectus dated May 12, 2017 (the "**Final Prospectus**"), under the heading "Risk Factors" in LXRandCo's final short form prospectus dated January 26, 2018 (the "**Final Short Form Prospectus**"), and as described from time to time in the reports and disclosure documents filed by the Company with the Canadian securities regulatory agencies and commissions. Such list of risk factors is not exhaustive of the factors that may impact the forward-looking statements. These and other factors should be considered carefully and readers should not place undue reliance on the forward-looking statements in this MD&A. As a result of the foregoing and other factors, there can be no assurance that actual results will be consistent with these forward-looking statements.

All forward-looking statements included in and incorporated into this MD&A are qualified by these cautionary statements. Unless otherwise indicated, the forward-looking statements contained herein are made as of the date of this MD&A, and except as required by applicable law, the Company does not undertake any obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise.

Overview

LXRandCo is a rapidly growing, international omni-channel retailer of branded vintage luxury handbags and accessories. LXRandCo sources and authenticates high quality pre-owned products and sells them through: a retail network of "shop-in-shop" stores located in major department stores in Canada, the United States and Europe; wholesale operations primarily in the United States; and its own e-Commerce website, www.lxrco.com. LXRandCo offers pre-owned products from iconic brands such as Hermès, Louis Vuitton, Gucci and Chanel, among others, at attractive prices and seeks to appeal to the aspirational lifestyle needs of women of all ages. As at December 31, 2017, LXRandCo's retail network consisted of 133 stores with 9 located in Canada, 96 in the United States, 14 in Germany, 4 in Belgium, 5 in the Netherlands and 5 in the United Kingdom. LXRandCo has offices in Montréal, Québec, and Tokyo, Japan.

LXRandCo's mission is to connect consumers with pre-owned branded luxury products and inspire a new pride in 'vintage luxury' by making sought after luxury products accessible to a broader audience. Management believes that its curated offering of branded pre-owned vintage luxury products addresses a growing demand by aspirational buyers who seek luxury products and accessories that might otherwise be unavailable to them due to price and accessibility. LXRandCo offers an integrated omni-channel buying environment, and authenticated and condition-graded products that are attractively priced compared to new products.

Completion of LXR Acquisition

On June 9, 2017, Gibraltar Growth completed the LXR Acquisition, consisting of the acquisition of LXR International, and closed the Private Placement of Class B Shares for gross proceeds of $25.0 million. In connection with the closing of the LXR Acquisition, Gibraltar Growth was renamed to LXRandCo, Inc., and the Gibraltar Growth Class A Restricted Voting Shares not submitted for redemption were automatically converted into Class B Shares on a one-for-one basis.

The Class B Shares commenced trading on the TSX on June 14, 2017, concurrent with the delisting of the Class A Restricted Voting Shares. The Class B Shares and Warrants are listed and posted for trading on the TSX under the symbols "LXR" and "LXR.WT".

As of December 31, 2017, LXRandCo had 12,946,483 Class B Shares, 10,861,250 Warrants and 281,798 options exercisable for Class B Shares. The outstanding Class B Shares reflect working capital adjustments in accordance with the LXR Acquisition, which were finalized during the year ended December 31, 2017.

Financial and Operating Highlights

Refer to the section entitled "How Management Assesses the Performance of LXRandCo" in this MD&A for the definition of items disclosed below and, when applicable, to the section entitled "Selected Consolidated Financial Information" for a reconciliation of non-IFRS measures with the most directly comparable IFRS measure.

Year Ended December 31, 2017 Compared to Year Ended December 31, 2016

Select financial highlights include the following:

- Net revenue increased by 69.3% to $37.1 million from $12.8.

- E-Commerce revenue increased to 5.9% of net revenue from 5.4% (e-Commerce figures for the 2016 period are presented pro forma the re-acquisition of Groupe Global, see "*Non-Recurring Gain from a Step Business Combination*" in "Results of Operations" section).

- 90 stores were opened in 2017 offset by three closures, compared to 33 store openings in 2016, offset by two closures.

- The retail network expanded to 133 stores in 2017, including launches in three new countries for the Company (Belgium, the United Kingdom and the Netherlands), as well as additional openings in the United States and Germany with existing partners and four new partners in the United States.

- Gross profit increased by 48.9% to $10.3 million from $6.9 million.

- Gross profit margin was 27.9%, compared to 31.6%.

- Adjusted EBITDA (a non-IFRS measure) was $(4.1) million, compared to $0.8 million in 2016.

- Adjusted Net Loss (a non-IFRS measure) was $5.7 million, compared to $0.9 million in 2016.

- The number of employees increased by 325 to 500 in the year ended December 31, 2017.

- Average productivity for the Company's 30 stores that have been open for more than 12 months was more than $2,350 per square foot.

Three-Month Period Ended December 31, 2017 Compared to Three-Month Period Ended December 31, 2016

Select financial highlights include the following:

- Net revenue increased by 64.6% to $15.0 million from $9.1 million.

- E-Commerce revenue increased to 6.2% of net revenue from 5.2% (e-Commerce figures for the 2016 period are presented pro forma the re-acquisition of Groupe Global, see "*Non-Recurring Gain from a Step Business Combination*" in "Results of Operations" section).

- 47 stores were opened in the three-month period ended December 31, 2017, compared to 18 stores opened in the three-month period ended December 31, 2016, offset by one store closure**.**

- The retail network expanded to 133 stores in the three-month period ended December 31, 2017, including launches with four new retail partners in the United States.

- Gross profit increased by 22.4% to $3.6 million from $3.0 million.

- Gross profit margin was 24.2% of net revenue, compared to 32.6%.

- Adjusted EBITDA (a non-IFRS measure) was $(2.3) million, compared to $0.9 million for 2016.

- Adjusted Net Loss (a non-IFRS measure) was $3.2 million, compared to $0.1 million for 2016.

- The number of employees increased by 172 to 500 in the three-month period ended December 31, 2017.

Additional Operating Highlights

Select other operating highlights, subsequent to December 31, 2017 include:

- On January 26, 2018, the Company announced the appointment of Ms. Audrey Lara as Chief Financial Officer of LXRandCo, Inc. Ms. Lara brings to LXRandCo more than 15 years of finance and capital markets experience, with an extensive background in financial planning and operations, management and strategy, and a deep knowledge of retail and especially retail technology. Ms. Lara will officially assume her duties with the Company on April 1st, 2018.

- On February 12, 2018, the Company issued 2,728,500 Class B shares pursuant to a public offering at a price of C$5.25 per share for gross proceeds of $14,324,625 (the "Offering"). The net proceeds of the Offering are expected to be used to accelerate the expansion of the Company's omni-channel sales network and for general corporate purposes.

Factors Affecting Results from Operations

Management believes that the performance and future success of LXRandCo depends on a number of factors that present significant opportunities. These factors are also subject to a number of risks and challenges, some of which are discussed under the headings "Risk Factors" and "Management's Discussion and Analysis of LXR – Risk Factors" in the Final Prospectus. Factors that could cause such differences include, but are not limited to, those factors described under the headings "Risk Factors" and "Management's Discussion and Analysis of LXR – Risk Factors" in the "Final Prospectus", under the headings "Risk Factors" in the "Final Short Form Prospectus" and as well as in the documents filed by the Company with the Canadian securities regulatory agencies and commissions from time to time.

LXR Brand

LXRandCo sources and authenticates branded pre-owned luxury vintage products that it sells through its international omni-channel sales network. Management believes that growing customer awareness and trust in the LXRandCo product offering has been important to the success of LXRandCo and that maintaining and enhancing the important attributes of the LXRandCo brand, including product authenticity and an attractive price to value relationship, are essential to LXRandCo's continued success. Any loss of brand appeal may adversely affect LXRandCo's business and financial results.

Product Mix and Merchandising Strategy

LXRandCo believes that its ability to determine which products and brands to offer its addressable market is a key driver of its net revenue growth. LXRandCo gains an understanding of market demand for pre-owned vintage luxury products by analyzing general demographic data, data provided by retail partners on product sales and location-specific traffic, and occasionally data obtained from the launch of pop-up stores. LXRandCo's merchandising strategies have been developed since its inception and are continuously refined to ensure that LXRandCo offers an attractive value proposition to its targeted demographic, with the right product, at the right time, at the right price and across all channels. LXRandCo's continued success will depend on, among other factors, its ability to properly assess demand in its targeted markets and to continue to implement a disciplined merchandise planning strategy that allows it to maintain optimal inventory levels, product assortment and pricing.

Sourcing and Authentication

LXRandCo sources its merchandise primarily from third party suppliers in Japan and to a lesser extent other suppliers including consumers. LXRandCo contracts and maintains direct relationships with a diversified base of independent third party suppliers which provide the Company with the flexibility to source specific high quality vintage luxury products at competitive costs in significant quantities. It is management's intention to increase the amount of product it sources directly from consumers in order to improve margins while still maintaining the benefits of better inventory control achieved through purchases from third party suppliers. Significant disruptions in LXRandCo's current and planned sources of product supply could affect LXRandCo's ability to address market demand and achieve future revenue growth targets and store productivity objectives. LXRandCo will continue to diversify its sourcing alternatives by increasing the proportion it buys directly from consumers through LXRandCo's retail network and through its web channel at www.lxrco.com.

In addition to authentication guarantees provided to it by suppliers, LXRandCo maintains a rigorous internal authentication process whereby all products sourced from suppliers and customers are inspected by highly trained teams of product experts. Any loss of trust in the authenticity of LXRandCo's products could adversely affect LXRandCo's business and financial results. LXRandCo will continue to maintain uncompromising standards in product authentication in order to provide an authenticity guarantee on all product sales.

Retail Network Expansion

LXRandCo has been rapidly expanding its retail network across the United States and internationally, and will continue to do so. LXRandCo's ability to successfully expand its retail network will depend on numerous factors, including its ability to minimize closures of existing stores, secure new retail partners and expand existing partnerships in targeted geographies, execute on the rapid expansion of store openings and generate the anticipated financial performance for LXRandCo and its retail partners. Management anticipates leveraging the success of its current retail partner relationships into new store openings and developing new retail partner relationships through outbound business development efforts and introductions made through its board of directors.

Retail Network Productivity and Scalability

LXRandCo's "shop-in-shop" store model is designed to be productive and rapidly scalable. LXRandCo believes that its store productivity depends on, among other factors, being present in department stores that target a demographic that has a potential affinity for pre-owned vintage luxury products, obtaining choice space and placement within the department stores, its ability to offer an attractive value proposition to its consumers, and creating an exceptional buying experience for its customers. LXRandCo will continue to manage its sourcing and merchandising functions to be in a position to offer attractive value to its customers. In addition, LXRandCo will continue to invest in the training of its sales associates and the presentation of its stores so as to emphasize and reinforce LXRandCo's brand values.

e-Commerce Growth

LXRandCo's launched its e-Commerce offering in 2013, and management believes there is an opportunity to meaningfully grow its e-Commerce business. LXRandCo plans to leverage business intelligence and behaviour data to further enhance its understanding of customer preferences and buying behaviour. This includes optimizing its online operations to enhance personalization, which LXRandCo believes will drive higher conversion rates and increased customer loyalty. Management also believes there is a synergistic relationship between its retail network channel and www.lxrco.com, with the success of each benefiting the other through increased brand awareness and affinity. As LXRandCo expands its retail network, management believes that its e-Commerce business will benefit from the increased awareness of the LXRandCo brand resulting from the larger and more expansive retail network.

Consumer Trends

Demand for vintage luxury handbags and accessories is subject to shifts in consumer trends, preferences and consumer spending, and LXRandCo's revenue and operating results depend, in part, on its ability to respond to such changes in a timely manner. Management believes that LXRandCo's diversified brand and product mix provides LXRandCo with the flexibility to optimize its offering as needed to address changes in consumer demand and market trends. In addition, the iconic nature of the brands offered by LXRandCo also provide a more stable source of demand over time that is less susceptible to be affected by short term fashion trends. LXRandCo's revenue is also affected by, discretionary spending by consumers, which is affected by many factors that are beyond LXRandCo's control, including, but not limited to, general economic conditions, consumer disposable income levels, consumer confidence levels, consumer debt, the cost of basic necessities and other goods and the effects of weather or natural disasters.

Seasonality

LXRandCo's business has not demonstrated significant seasonality to date, with only a slightly higher proportion of net revenue generated during the second half of the year. The days leading up to Valentine's Day and Mother's Day in the first and second quarter of the year, respectively, are important sales generating periods as well as the Christmas holiday season in the fourth quarter of the year.

Based on the net revenue generated by the 30 stores open for a full year in 2017, the quarterly share of annual net revenue for the year was as follows:

First fiscal quarter	24%

Second fiscal quarter	26%
Third fiscal quarter	24%
Fourth fiscal quarter	26%
Yearly total	100%

While LXRandCo's business has not demonstrated significant seasonality to date, seasonal or cyclical variations in business may become more pronounced over time as its retail network expands. Most store openings typically occur in the fall season which could lead to more pronounced variations in LXRandCo's results in years with significant new store additions.

Competition

LXRandCo operates in the pre-owned branded vintage luxury accessories industry in North America and internationally, primarily in Europe. LXRandCo competes on the basis of several factors that include its mix of products and brands, more affordable product price points relative to new branded luxury products, its ability to source specific products more consistently and with greater depth, its omni-channel sales network capabilities, its guarantee of authenticity, its retail partner relationships, its focus on providing exceptional customer service and its market positioning within a growing demographic for its products. Management believes the industry is evolving to benefit players like LXRandCo that can leverage synergistic omni-channel capabilities.

Foreign Exchange

LXRandCo reports in Canadian dollars. The majority of LXRandCo's net revenue is derived in U.S. dollars while the vast majority of its cost of goods sold is denominated in Japanese Yen. In addition, LXRandCo's growth plans include retail network expansion in Europe. Future fluctuations in the exchange rate of the Canadian dollar versus the U.S. dollar, and the Canadian dollar versus the Euro, the British Pound and the Japanese Yen could materially affect LXRandCo's gross profit margins and operating results. At present, LXRandCo is not using any hedging strategies in a material way to mitigate risks associated with forecasted Japanese Yen merchandise purchases sold in Canada, the United States and internationally.

How Management Assesses the Performance of LXRandCo

In assessing the performance of LXRandCo's business, management considers a variety of financial and operating measures that affect its operating results. LXRandCo conducts its activities in a single industry segment as an omni-channel retailer. The single operating segment includes all sales channels accessed by LXRandCo's customers, including sales through LXRandCo's retail network consisting of retail shop-in-shop stores (the "Retail Stores") and hybrid shop-in-shop stores (the "Hybrid Stores"), wholesale clients and online through its website.

Net Revenue

Net revenue primarily reflects the sale of merchandise, net of discounts, rebates, estimated returns and sales taxes. Net revenue from Retail Stores, including revenue from pop-up stores, is recognized at the point of sale, when the merchandise is delivered to the customer. Net revenue from e-Commerce sales is recognized when merchandise is delivered to the customer. Net revenue from Hybrid Stores and wholesale operations is recognized in accordance with the specific terms of the contract with the Hybrid Store retail partner or wholesale client, but is generally recognized upon shipment of the merchandise by LXRandCo.

Gross Profit

Gross profit reflects net revenue less cost of sales. Cost of sales includes product purchase cost, production costs, in-bound logistics costs and duties. Cost of sales also includes retail partner licensing costs and sales commission. LXRandCo's cost of sales may include different items compared to that of other retailers. Gross profit as a percentage of net revenue (gross profit margin) is impacted by the components of cost of sales.

Selling, General and Administrative ("SG&A") Expenses

SG&A expenses consist of selling expenses that are generally variable with net revenue, and general and administrative operating expenses that are primarily fixed. Management expects the variable component of SG&A expenses to increase as it continues to expand its retail store network, grow its e-Commerce business, increase brand awareness and invest in its infrastructure. LXRandCo's SG&A expenses may include different expenses compared to other retailers.

Net Loss

Net loss reflects gross profit less SG&A expenses and amortization and depreciation expenses to arrive at results from operating activities. It then further reflects the deduction of finance costs, debt extinguishment costs, foreign exchange loss (gain), convertible redeemable preferred share dividends, non-recurring gain on loss of control of a subsidiary, non-recurring gain from a step business combination, excess of fair value over net assets acquired, non-recurring acquisition costs, gain on expiration of warrants and change in fair value of financial instruments to arrive at loss before income taxes from which income tax expense is deducted to arrive at net loss.

Adjusted Net Loss

Adjusted Net Loss is a non-IFRS measure that management believes is a useful measure of LXRandCo's performance, as it provides a more relevant picture of results by excluding the effects of expenses that are not reflective of underlying business performance, and other non-cash or non-recurring expenses. Management uses Adjusted Net Loss to facilitate a comparison of its performance on a consistent basis from period-to-period and to provide for a more complete understanding of factors and trends affecting LXRandCo's business. Management defines Adjusted Net Loss as net loss adjusted for the impact of certain items, including non-cash items such as debt extinguishment costs, foreign exchange loss (gain), convertible redeemable preferred shares dividends, non-recurring gain on loss of control of a subsidiary, non-recurring gain from a step business combination, excess of fair value over net assets acquired, non-recurring acquisition costs, gain on expiration of warrants, stock-based compensation and change in fair value of financial instruments which management considers to be not representative of LXRandCo's ongoing operating performance, net of related tax effects.

EBITDA

EBITDA is a non-IFRS measure that management defines as net loss before amortization and depreciation expenses, finance costs and income tax expense.

Adjusted EBITDA

Adjusted EBITDA is a non-IFRS measure that management believes is a useful measure of operating performance in that it excludes the effects of financing and investing activities from operating results by removing the effects of amortization and depreciation expense, finance costs, expenses that are not reflective of underlying business performance, and other non-cash or non-recurring expenses. Management uses Adjusted EBITDA to facilitate a comparison of its operating performance on a consistent basis from period-to-period and to provide for a more complete understanding of factors and trends affecting LXRandCo's business. Management defines Adjusted EBITDA as net income (loss) before amortization and depreciation expenses, finance costs and income tax expense, adjusted for the impact of certain items, including debt extinguishment costs, foreign exchange loss (gain), convertible redeemable preferred share dividends, non-recurring gain on loss of control of a subsidiary, non-recurring gain from step business combination, excess of fair value over net assets acquired, non-recurring acquisition costs, gain on expiration of warrants, stock-based compensation and change in fair value of financial instruments which management considers to be not representative of LXRandCo's ongoing operating performance. Because Adjusted EBITDA excludes non-cash items, management believes that it is less susceptible to variances in actual performance resulting from depreciation, amortization and other non-cash charges.

Selected Consolidated Financial Information

The following table summarizes LXRandCo's recent results for the periods indicated:

	For the Year Ended December 31,	
Consolidated statements of loss and comprehensive loss:	**2017**	**2016**
Net revenue	**$37,069,137**	**$21,890,810**
Cost of sales	26,741,928	14,965,438
Gross profit	**10,327,209**	**6,925,372**
Selling, general and administrative expenses	16,162,129	6,127,350
Amortization and depreciation expenses	474,777	224,329
Results from operating activities	**(6,309,697)**	**573,693**
Finance costs	1,010,496	1,473,986
Debt extinguishment costs	612,939	—
Foreign exchange gain	(104,652)	(193,639)
Convertible redeemable preferred share dividends	61,308	661,442
Non-recurring gain on loss of control of a subsidiary	—	(363,948)
Non-recurring gain from a step business combination	(2,070,422)	—
Excess of fair value over net assets acquired	14,363,558	—
Non-recurring acquisition costs	819,141	—
Gain on expiration of warrants	(3,195,459)	—
Share of loss in an associate	—	499,007
Change in fair value of convertible redeemable preferred shares	—	17,277,928
Change in fair value of warrants	—	9,582,300
Loss before income taxes	**(17,806,607)**	**(28,363,383)**
Income tax expense (recovery)		
Current	106,240	(210,119)
Deferred	39,528	163,754
	145,768	(46,365)
Net loss for the period	**(17,952,374)**	**(28,317,018)**
Other comprehensive loss		
Cumulative translation adjustment	(340,581)	11,540
Comprehensive loss for the period	**(18,292,955)**	**(28,305,477)**

Percentage of net revenue:	For the Year Ended December 31, 2017	2016
Net revenue	**100%**	**100%**
Cost of sales	72%	68%
Gross Profit	**27.9%**	**31.6%**
Selling, general and administrative expenses	43.6%	28.0%
Amortization and depreciation expenses	1%	1%
Results from operating activities	**(17%)**	**3%**
Finance costs	3%	7%
Debt extinguishment costs	2%	—
Foreign exchange gain	(0%)	(1%)
Convertible redeemable preferred share dividends	0%	3%
Non-recurring gain on loss of control of a subsidiary	—	(2%)
Non-recurring gain from a step business combination	(6%)	—
Excess of fair value over net assets acquired	39%	—
Non-recurring acquisition costs	2%	—
Gain on expiration of warrants	(9%)	—
Share of loss in an associate	—	2%
Change in fair value of convertible redeemable preferred shares	—	79%
Change in fair value of warrants	—	44%
Loss before income taxes	**(48%)**	**(130%)**
Income tax expense (recovery)		
Current	0%	(1%)
Deferred	0%	1%
	0%	(0%)
Net loss	**(48%)**	**(129%)**
Other comprehensive loss		
Cumulative translation adjustment	(1%)	0%
Comprehensive loss	**(49%)**	**(129%)**

The following table provides a reconciliation of net loss to Adjusted Net Loss for the periods indicated:

Reconciliation of net loss to Adjusted Net income (loss):	For the Year Ended December 31, 2017	2016
Net loss	**(17,952,374)**	**(28,317,018)**
Adjustments to net loss:		
Debt extinguishment costs	612,939	—
Foreign exchange gain	(104,652)	(193,639)
Convertible redeemable preferred share dividends	61,308	661,442
Non-recurring gain on loss of control of a subsidiary	—	(363,948)

Reconciliation of net loss to Adjusted Net income (loss):	For the Year Ended December 31, 2017	2016
Non-recurring gain from a step business combination	(2,070,422)	—
Excess of fair value over net assets acquired	14,363,558	—
Non-recurring acquisition costs	819,141	—
Gain on expiration of warrants	(3,195,459)	—
Share of loss in an associate	—	499,007
Change in fair value of convertible redeemable preferred shares	—	17,277,928
Change in fair value of warrants	—	9,582,300
Stock-Based Compensation Expense	1,780,265	—
Other non-recurring costs	—	—
Adjusted net loss	**(5,685,696)**	**(853,928)**

The following table provides a reconciliation of net loss to EBITDA and Adjusted EBITDA for the periods indicated:

Reconciliation of net loss to EBITDA and Adjusted EBITDA:	For the Year Ended December 31, 2017	2016
Net loss	**($17,952,374)**	**($28,317,018)**
Amortization and depreciation expense	474,777	224,329
Finance Costs	1,010,496	1,473,986
Income tax expense	145,768	(46,365)
EBITDA	**(16,321,333)**	**(26,665,067)**
Adjustments to EBITDA:		
Debt extinguishment costs	612,939	—
Foreign exchange loss	(104,652)	(193,639)
Convertible redeemable preferred share dividends	61,308	661,442
Non-recurring gain on loss of control of a subsidiary	—	(363,948)
Non-recurring gain from a step business combination	(2,070,422)	—
Excess of fair value over assets acquired	14,363,558	—
IPO transaction costs	819,141	—
Gain on expiration of warrants	(3,195,459)	—
Share of loss in an associate	—	499,007
Change in fair value of convertible redeemable preferred shares	—	17,277,928
Change in fair value of warrants	—	9,582,300
Stock-Based Compensation Expense	1,780,265	—
Adjusted EBITDA	**(4,054,655)**	**798,022**
Adjusted EBITDA Margin	**(10.9%)**	**3.6%**

The following table provides selected retail network data for the periods indicated:

Selected retail network data:	For the Three-Months Ended December 31,		For the Year Ended December 31,	
	2017	2016	2017	2016
Number of stores, beginning of period	86	29	46	15
Store openings	47	18	90	33
Store closures	-	1	3	2
Number of stores, end of period	**133**	**46**	**133**	**46**

Results of Operations

Analysis of Results for the Year ended December 31, 2017 Compared to the Year ended December 31, 2016

The following section provides an overview of LXRandCo's financial performance during the year ended December 31, 2017 compared to the year ended December 31, 2016.

Net Revenue

Net revenue increased by 69.3%, from $21.9 million in 2016 to $37.1 million in 2017. The increase in net revenue was primarily attributable to the increase in sales from LXRandCo operating 87 more stores by the end of the year ended December 31, 2017 compared to the number of stores at the end of the year 2016. LXRandCo's retail network consisted of 133 stores as at December 31, 2017 compared to 46 stores as at December 31, 2016. There were 90 store openings in the year 2017 offset by three store closures. The increase in net revenue was also due to the growth from existing wholesale customers, as well as an increase in E-Commerce revenue. E-commerce revenue as a percent of net revenue was 5.9% in 2017 compared to 5.4% in 2016 (e-Commerce figures for the 2016 period are presented pro forma the re-acquisition of Groupe Global, see *"Non-Recurring Gain from a Step Business Combination"*).

During the year 2017, net revenue from Canada, the United States, the United Kingdom and Europe was 15.5%, 71.6%, 1.1% and 11.8%, respectively. In the United States, LXRandCo's largest market, net revenue increased by 63.8% in 2017 when compared to 2016 as LXRandCo continued to open new stores and add new retail channel partners.

Gross Profit

Gross profit increased by 49.1% in 2017, from $6.9 million in 2016 to $10.3 million. The change was primarily attributable to the increase in net revenue.

Gross profit margin for 2017 was 27.9% compared to 31.6% in 2016. The decrease was due to a combination of factors as detailed in the discussion of gross profit margin for the three-month period ended December 31, 2017 (see below). The impact of these factors was less pronounced when taken into consideration with the results over the course of the full year.

SG&A Expenses

SG&A expenses were $16.2 million in 2017 compared to $6.1 million in 2016. Of the $16.2 million of SG&A expenses incurred during the year, approximately $1.4 million was related to store-related opening and closing costs.

SG&A expenses were 43.6% of net revenue in 2017 compared to 28.0% of net revenue in 2016. The increase was due to several factors, including:

- Salaries increased by $6.0 million (+136.0%), an increase from $4.4 million in 2016 to $10.3 million in 2017, mainly due to the rapid expansion of LXRandCo's retail network;
- Growth in headcount relating to head office and support personnel; and
- Public company costs incurred including items such as professional fees, directors' fees, and stock-based compensation.

The number of employees grew by 325 in 2017 to reach 500, compared to a total employee headcount of 175 in 2016.

Finance Costs

Finance costs amounted to $1.0 million in 2017 compared to $1.5 million in 2016. The decrease was primarily due to lower effective interest rates on the Company's credit facilities in use to finance working capital coupled with lower outstanding long-term debt balances in the second half of the year.

Debt Extinguishment Costs

Debt extinguishment costs were $0.6 million in 2017 compared to nil in 2016. These costs resulted from the Company's decision to prepay its subordinated debt and credit facility upon the completion of the LXR Acquisition which led to early termination costs.

Non-cash Expenses

Foreign Exchange Gain

Foreign exchange gain was $0.1 million in 2017 compared to $0.2 million in 2016.

Convertible Redeemable Preferred Share Dividends

Convertible redeemable preferred share dividends were $0.1 million in 2017 compared to $0.7 million in 2016. Upon completion of the LXR acquisition, the convertible redeemable preferred shares and corresponding dividends were converted into Class B shares of LXRandCO.

Non-Recurring Gain on Loss of Control of a Subsidiary

Non-recurring gain on loss of control of a subsidiary was nil in 2017, compared to $0.4 million in 2016 due to the gain related to the derecognition of the disposed interest in Groupe Global LXR Inc. that occurred in 2016.

Non-Recurring Gain from a Step Business Combination

Non-recurring gain from a step business combination was $2.1 million in 2017 compared to nil in 2016. The Company recognized a gain resulting from the increase in fair value of its existing ownership of Groupe Global LXR Inc. following the repurchase of the interest in Groupe Global LXR Inc. that it did not own on January 1, 2017.

Excess of Fair Value Over Net Assets Acquired

The excess of fair value over net assets acquired arose from the accounting treatment of the LXR Acquisition and was $14.4 million in 2017, compared to nil in 2016. While Gibraltar Growth was the legal acquirer of LXR International in the transaction, LXR International was identified as the acquirer for accounting purposes and the transaction was accounted for under IFRS 2, Share-based Payments. Under IFRS 2, this amount represents the difference between the fair value of the shares deemed to have been issued by LXR International to effect the LXR Acquisition and the fair value of Gibraltar Growth's identifiable net assets at the time of the LXR Acquisition. This difference is characterized as a service received by LXR International and under IFRS 2, and was recorded through net loss.

Non-Recurring Acquisition Costs

Non-recurring acquisition costs were $0.8 million in 2017 compared to nil in 2016. This increase represents non-recurring costs associated to the cost of becoming a publicly-listed reporting issuer as a result of the LXR Acquisition.

Gain on Expiration of Warrants

The gain on expiration of warrants was $3.2 million in 2017 compared to nil in 2016. The Company recognized a gain resulting from the reduction of a financial liability associated with the issuance and partial exercise of 130,039 warrants to purchase convertible redeemable preferred shares.

Income Tax Expense

Income tax expense was $0.1 million for 2017 compared to a recovery of $0.2 million in 2016. The Company carries unused tax losses in many jurisdictions which explains the low income tax expense.

Net Loss

Net loss was $17.9 million in 2017 compared to a net loss of $28.3 million in 2016. The decrease of $10.4 million was largely attributable to the reduction of various non-recurring elements totalling $26.7 million in 2016, offset by new non-recurring elements totalling $10.6 million in 2017 and by an operating loss of approximately $6.3M

Adjusted Net Loss

Adjusted Net Loss was $5.7 million in 2017, compared to a loss of $0.9 million in 2016. This increase in Adjusted Net Loss was the result of the factors discussed above, primarily a decrease in gross profit margin and higher SG&A expenses.

Adjusted EBITDA

Adjusted EBITDA was $(4.1) million in 2017 compared to $0.8 million in 2016 and Adjusted EBITDA Margin was (10.9)% in 2017 compared to 3.6% in 2016. These decreases were primarily due to the factors discussed above.

Adjusted EBITDA includes approximately $1.5 million of SG&A expenses incurred in the year related to non-recurring branding costs ($0.1 million) and recurring store-related opening and closing costs ($1.4 million).

Analysis of Results for the Three-Month Period ended December 31, 2017 Compared to the Three-Month Period ended December 31, 2016

The following section provides an overview of LXRandCo's financial performance during the three-month period ended December 31, 2017 compared to the three-month period ended December 31, 2016.

Net Revenue

Net revenue increased by 64.6% to $15.0 million in the three-month period ended December 31, 2017 from $9.1 million in the three-month period ended December 31, 2016. The increase in net revenue was primarily attributable to the increase in sales from LXRandCo operating 87 more stores by the end of the three-month period ended December 31, 2017 compared to the number of stores at the end of the three-month period ended December 31, 2016. LXRandCo's retail network consisted of 133 stores as at December 31, 2017 compared to 46 stores as at December 31, 2016. There were 47 new store openings in the three-month period ended December 31, 2017, many of them with 4 new retail partners in the United States. The increase in net revenue was also due to another quarter of revenue growth from existing wholesale customers, as well as an increase in e-Commerce revenue. E-Commerce revenue as a percentage of net revenue was 6.2% in the three-month period ended December 31, 2017 compared to 5.2% in the three-month period ended December 31, 2016 (e-Commerce figures for the 2016 period are presented pro forma the re-acquisition of Groupe Global, see *"Non-Recurring Gain from a Step Business Combination"*).

During the quarter, net revenue from Canada, the United States, the United Kingdom and Europe was 9.6%, 80.2%, 1.8% and 8.4%, respectively. In the United States, LXRandCo's largest market, net revenue increased 84.5% from the prior period as LXRandCo continued to open new stores and add new retail channel partners.

A year-end provision of $0.3 million was recorded to recognize customer's right to return sold items in the fiscal year 2017 based on the LXRandCo's historical rate and return policy as defined under IFRS 15 "Revenue from Contracts with Customers".

Gross Profit

Gross profit increased by 22.4% to $3.6 million in the three-month period ended December 31, 2017 from $3.0 million in the three-month period ended December 31, 2016. The change was primarily attributable to the increase in net revenue.

Gross profit margin was 24.2% in the three-month period ended December 31, 2017, compared to 32.6% in the three-month period ended December 31, 2016. The decrease in gross profit margin was due to several factors, including:

- A general increase in the sourcing cost of certain brands in Japan that typically account for a large part of the Company's sales;
- The decision to increase promotional activity to take advantage of a large number new stores opening during the busy holiday shopping season and a resulting higher proportion of overall sales taking place during promotional events in the period;
- The addition to the omni-channel network of new retail partners with higher licensing fee rates which were partially offset by improved cost sharing economics;
- A decision to increase the provision for potentially slow moving inventory which was appropriate given the increase in the size of the omni-channel network in the period; and
- Other factors including changes in product mix, landed cost and shrinkage.

SG&A Expenses

SG&A expenses were $6.4 million in the three-month period ended December 31, 2017, compared to $2.1 million in the three-month period ended December 31, 2016. Of the $6.4 million of SG&A expenses incurred during the quarter, approximately $0.5 million or 8.2% was related to store-related opening and closing costs.

SG&A expenses were 42.7% of net revenue in the three-month period ended December 31, 2017, compared to 22.8% of net revenue in the three-month period ended December 31, 2016. The increase was due to several factors including:

- Expansion of the the omni-channel network by 87 stores, which increased salaries and related costs for in-store staff by $2.1 million (163%) to $3.4 million in the three-month period ended December 31, 2017 from $1.3 million in the three-month period ending December 31, 2016;
- Increased headcount relating to head office and support personnel; and
- Public company costs such as professional fees, directors' fees, and stock-based compensation.

The number of employees grew by 172 in the three-month period ended December 31, 2017 to 500 as at December 31, 2017 compared to an increase of one employee in the three-month period ended December 31, 2016 to 175 as at December 31, 2016.

Net Loss

Net loss was $3.4 million in the three-month period ended December 31, 2017, compared to a net loss of $27.9 million in the three-month period ended December 31, 2016. The decrease was largely attributable to the reduction of various non-recurring expenses totalling $26.9 million in 2016.

Adjusted Net Loss

Adjusted Net Loss was $3.2 million in the three-month period ended December 31, 2017, compared to adjusted net loss of $0.1 million in the three-month period ended December 31, 2016. This increase was the result of the factors discussed above, primarily lower gross profit margin and higher SG&A expenses.

Adjusted EBITDA

Adjusted EBITDA was $(2.3) million in the three-month period ended December 31, 2017, compared to $0.9 million in the three-month period ended December 31, 2016. This decrease was primarily due to the factors discussed above. Adjusted EBITDA Margin was (15.7)% of net revenue in the three-month period ended December 31, 2017, compared to 9.8% of net revenue in the three-month period ended December 31, 2016. This decrease was primarily due to the factors discussed above.

Adjusted EBITDA includes approximately $0.5 million of SG&A expenses incurred in the three-month period ended December 31, 2017 related to store-related opening costs.

Outlook

In response to retail partner demand, management anticipates that the mix of stores will continue to shift from predominantly full license retail stores to a higher percentage of hybrid stores. Through a combination of conversion of existing full license retail stores to hybrid stores and new store openings, management expects that its store mix at the end of 2018 will be approximately 20% to 40% full license retail stores and 60% to 80% hybrid stores. Hybrid stores provide LXRandCo with greater flexibility as hybrid models allow retail partners to enter into cost sharing arrangements with LXRandCo with respect to capital expenditures, staffing costs or responsibility for store inventory that the full license retail store model does not accommodate. In addition, hybrid stores generally have smaller footprints with an average size of between 100 and 175 square feet compared to an average size of 375 square feet for full license retail stores.

Management's targeted productivity for full license retail stores is approximately $2,400 per square foot and $1,100 to $2,100 per square foot for hybrid stores. The anticipated lower productivity of hybrid stores is mitigated by the assumption of certain costs by retail partners, including, in certain circumstances, the outright purchase of inventory by the retail partner.

Selected Quarterly Financial Information

The following table summarizes the results of LXRandCo for the most recently completed quarters for which financial statements have been prepared since the Company has been a reporting issuer. This unaudited quarterly information, other than Adjusted EBITDA and Adjusted Net Loss, has been prepared in accordance with IFRS. Due to the rapid growth in the business and seasonality, the results of operations for any quarter are not necessarily indicative of the results of operations for the year. As LXRandCo has only publicly filed three quarters of financial results, other than as stated elsewhere in this MD&A, it is not possible to discern any trends from the quarterly financial information that is available.

	For the Quarter Ended							
	2017				**2016**			
Consolidated statements of loss and comprehensive loss:	**Q4**(1)(2)	**Q3**(1)	**Q2**(1)(2)(3)	**Q1**(1)	**Q4**	**Q3**	**Q2**	**Q1**
Net revenue	**$14,955,371**	**$8,793,081**	**$7,174,723**	**$6,145,962**	**$9,085,859**	**$4,823,124**	**$4,136,951**	**$3,844,876**
Gross profit.....................	3,624,568	2,859,982	$2,038,151	1,804,508	2,961,635	1,436,943	1,275,672	1,251,122
Results from operating activities..........................	(2,998,767)	(1,312,936)	(984,793)	(1,013,200)	831,178	73,308	(294,937)	(35,857)
Loss before income taxes	(3,075,254)	(1,523,133)	(16,296,604)	3,763,722	(27,880,452)	(168,793)	(171,328)	(142,811)
Net loss	(3,406,717)	(1,446,346)	(16,184,949)	3,762,602	(27,880,452)	(108,374)	(171,480)	(156,713)
Net income (loss) per share								
Basic	(0.30)	(0.10)	(2.77)	0.94	(6.08)	(0.02)	(0.04)	(0.03)
Fully diluted	(0.30)	(0.10)	(2.77)	0.96	(6.08)	(0.02)	(0.04)	(0.03)
Adjusted Net Loss	(3,191,512)	(903,401)	(856,889)	(732,265)	**(53,446)**	**(54,494)**	**(528,835)**	**(217,154)**
Adjusted EBITDA	(2,345,499)	(832,645)	(586,927)	(289,582)	**886,914**	**112,218**	**(237,788)**	**36,678**

(1) During the fourth quarter, the Company corrected its stock-based compensation expense for the year 2017 to conform with the requirements of IFRS 2 regarding measurement of the stock-based compensation expense using graded-vesting and measurement and recognition of non-employee share-based awards granted. Accordingly, management corrected for its previously published three-month periods ended March 31, June 30 and September 30, 2017 and increased SG&A expenses by $589,731, $138,740 and $142,306, respectively.
(2) During the year, the Company finalized and completed its accounting equation for the LXR Acquisition, which resulted in an understatement of net assets acquired and overstatement of excess of fair value over net assets acquired of $0.4M. Since the LXR Acquisition occurred in the second quarter of 2017, the Company corrected the Q2-2017 financial information pertaining to this element.
(3) For Q2-2017, loss before income taxes reflects a working capital purchase price adjustment. See "Completion of LXR Acquisition" section.

Liquidity and Capital Resources

Overview

LXRandCo's primary uses of funds are for operating expenses, working capital requirements, capital expenditures and debt service requirements. Management believes that its cash on hand and cash generated from operations, together with amounts available under its credit facility, will be sufficient to meet its future operating expenses, working capital requirements, capital expenditures and future debt service requirements. Management also believes that its capital structure provides the financial flexibility required to allow it to pursue its future growth strategies. LXRandCo's ability, however, to fund operating expenses, working capital requirements, capital expenditures and future debt service requirements will depend on, among other things, its future operating performance, which will be affected by general economic, financial and other factors, including factors beyond its control. See "Factors Affecting Results from Operations" and "Risk Factors" sections in this MD&A for additional information. LXRandCo also reviews acquisition opportunities in the normal course of business and may make select acquisitions to implement its business strategy when suitable opportunities arise. Management expects that the funding for any such acquisitions would come from cash balances, cash flow from operating activities and/or its credit facility.

Working Capital

Working capital includes cash, accounts receivable, taxes receivable, inventory, prepaid expenses and deposits, amounts drawn on the Company's line of credit, accounts payable and accrued liabilities, sales tax payable, and the current portion of long-term debt.

LXRandCo's need for working capital occurs at different points in the year, with peak requirements preceding Valentine's Day in February, Mother's Day in May and the December holiday season. In addition, since store openings tend to be greater in the fall season, working capital requirements will be more pronounced leading up to and during that period as LXRandCo continues the expansion of its retail network.

Historically, LXRandCo's main sources of liquidity have been from cash on hand, cash generated from operating activities and borrowings under revolving credit facilities. As at December 31, 2017, LXRandCo's working capital was $18.9 million.

Credit Facilities and Other Indebtedness

The following summarizes the indebtedness incurred by LXRandCo as at December 31, 2017. This summary should be read in conjunction with the audited consolidated financial statements of the Company and notes thereto for the year ended December 31, 2017 and the audited consolidated financial statements and notes thereto of LXR International for the year ended December 31, 2016.

Credit Facilities

On June 9, 2017, concurrent with the closing of the LXR Acquisition, the Company repaid a revolving term loan and a capital expenditure term loan that it had with Sterling National Bank. Accordingly, The Company incurred $142, 480 of termination fees that were recorded as debt extinguishment costs. Remaining unamortized deferred financing fees were expensed in 2017.

On June 14, 2017, the Company entered into a credit agreement with a Canadian chartered bank which provides the Company with a new credit facility to finance its growth (the "Line of Credit"). The Line of Credit consists of a revolving credit facility for an authorized amount of up to $25,000,000, subject to a maximum draw based on a borrowing base calculated as a percentage of eligible accounts receivable and eligible inventory as defined in the credit agreement.

The Line of Credit bears interest at (a) the bank's prime rate (3.2% as at December 31, 2017) or U.S. base rate if denominated in U.S. dollars (4.5% as at December 31, 2017) plus an applicable margin of 0.50%, (b) the banker's acceptance rate (1.37% as at December 31, 2017), plus an applicable margin of 2.00% or LIBOR (1.56% as at December 31, 2017) plus an applicable margin of 2.00%, at the Company's option. A commitment fee of 0.25% of the unused portion of the Line of Credit is also due. The Line of Credit matures on June 14, 2019 and accordingly, it is presented as a long-term liability. As at December 31, 2017, the Company had drawn $8,602,491 on the available balance. The Company incurred $610,231 of financing costs attributable to the issuance of the Line of Credit. As at December 31, 2017, unamortized financing costs recorded as reduction of the Line of Credit amount to $413,015.

The Line of Credit can be used to enter into foreign exchange contracts for a maximum amount of $1,000,000, secured by forward exchange contracts entered into by the Company. The Line of Credit can also be used to issue letters of credit for a maximum amount of $2,000,000.

The Line of Credit is collateralized by substantially all assets of the Company and its subsidiaries. The Line of Credit requires the Company to meet certain financial covenants, which were all met as at December 31, 2017.

Other Indebtedness

Term Loans with Business Development Bank of Canada ("BDC")

On August 15, 2013, the Company, through its wholly-owned subsidiary LXR Canada Inc., obtained financing of $1,500,000 from BDC in the form of an unsecured debt maturing on August 15, 2018, bearing interest at an annual rate of 8.75%. Upon maturity, the Company was required to pay a bonus payment of 1.2% of the Company's consolidated value as defined in a formula in the agreement. Under the terms of the agreement, the Company was also required to pay a monthly royalty of 0.30% of consolidated annual sales.

On June 9, 2017, concurrent with the closing of the LXR Acquisition, the Company repaid the outstanding balance of the subordinated debt, including bonus payment and royalty described above, for a total amount of $2,383,106.

Term Loans with Investissement Québec ("IQ")

The Company, through its wholly-owned subsidiary, LXR Canada Inc., entered into the following term loans with IQ:

(a) Term loan of $300,000 bearing interest at the bank's prime rate (3.2% as at December 31, 2017 and December 31, 2016) plus an applicable margin of 3%. The loan is repayable by forty-eight monthly principal payments of $6,250 with a 12-month moratorium from June 1, 2015 to May 31, 2016. The loan matured on November 30, 2017 and was fully repaid (December 31, 2016 – $68,750).

(b) Term loan of $600,000 bearing interest at the bank's prime rate (3.2% as at December 31, 2017 and December 31, 2016) plus an applicable margin of 3%. The loan is repayable by sixty monthly principal payments of $10,000 with a 12-month moratorium from June 1, 2015 to May 31, 2016. The loan matures on April 30, 2019. As at December 31, 2017, the long-term debt obligation under this loan amounted to $180,000 (December 31, 2016 – $290,000).

The term loan requires that certain financial covenants be maintained by the Company, which were not all met as at December 31, 2017. The Company continues to repay this term loan in the normal course and has presented it as a current liability on the consolidated statement of financial position,

(c) Term loan of $225,000 bearing interest at the bank's prime rate (3.2% as at December 31, 2017 and December 31, 2016) plus an applicable margin of 2.15%. The loan was fully repaid in October 2017 (December 31, 2016 – $11,194).

Cash Flows

The following table summarizes LXRandCo's cash flows for the periods indicated:

	For the Twelve-months Ended December 31,	
Cash Flow Data:	**2017**	**2016**
Cash flows used in operating activities	(15,734,746)	(3,650,336)
Cash used in investing activities	16,864,619	(807,239)
Cash provided by (used in) financing activities	2,001,503	4,456,312
ffect of exchange rate changes on cash and cash equivalents	(55,317)	30,371
Increase (decrease) in cash during the period	**3,076,059**	**29,108**
Cash, beginning of period	938,966	909,858
Cash, end of period	**4,015,025**	**938,966**

Analysis of Cash Flows for the year Ended December 31, 2017 Compared to the year Ended December 31, 2016

For the year ended December 31, 2017, cash used in operating activities was $15.7 million, compared to $3.7 million for 2016, an increased use of cash of $12 million. This increase was primarily attributable to the rapid expansion of LXRandCo's retail network, which resulted in a net loss in the period and in increased working capital requirements in the form of higher accounts receivable and inventory.

For the year ended December 31, 2017, cash provided by investing activities was $16.9 million as compared to cash used in investing activities of $0.8 million for the year ended December 31, 2016, a net increase in cash of $16.1 million. This increase was primarily due to the cash acquired in the context of the LXR Acquisition, partially off-set by increases in intangible and capital assets in the year.

For the year ended December 31, 2017, cash flows provided by financing activities was $2 million compared to cash provided by financing activities of $4.5 million for the year ended December 31, 2016, a net decrease of $2.5 million. This decrease was primarily attributable to the repayment of the Company's previous credit facilities and long-term debt and the issuance and redemption of certain preferred shares, offset by a higher usage of the Company's new line of credit.

For the year ended December 31, 2017, the net increase in cash was $3.1 million, compared to nil for the year ended December 31, 2016, which resulted in an ending cash balance on December 31, 2017 of $4.0 million compared to $0.9 million on December 31, 2016.

Contractual Obligations

The following table summarizes LXRandCo's contractual maturities and carrying amounts of financial liabilities as at December 31, 2017:

	Maturing in under 1 Year	Maturing in 1 to 5 Years	Total
Contractual Obligations:			
Credit facility	—	8,602,491	8,602,491
Accounts payable and accrued liabilities	5,829,675	—	5,829,675
Other liabilities	—	159,097	159,097
Long-term debt	22,929	188,810	211,739
Total Contractual Obligations	**5,958,485**	**8,844,517**	**14,803,002**

Commitments and Contingencies

The following table summarizes LXRandCo's off-balance sheet arrangements and commitments as at December 31, 2017:

	2018	2019	2020
Off-balance Sheet Commitments:			
Operating leases	$759,816	$250,975	$149,818

The schedule above includes amounts due to a company controlled by Fred Mannella, Chief Executive Officer, and Kei Izawa, Chief Operating Officer in the amounts of $144,000, $146,880 and $149,818 for 2018, 2019 and 2020, respectively.

As previously disclosed, on October 31 2017, a formal claim was received by the Company totaling approximately $1.1 million related to a terminated financing arrangement for the services of a financial advisor in the search of private equity capital. Management continues to believe that the claim is without merit, intends to defend itself vigorously, and therefore, no provision has been recorded in the consolidated financial statements.

Related Party Transactions

In the normal course of its operations, LXRandCo enters into transactions with related parties. These transactions are measured at the exchange amount, which is the amount of consideration determined and agreed to by the related parties. Transactions and balances between related parties were as follows for the periods indicated:

	December 31, 2017	December 31, 2016
	$	$
Transactions with a commonly controlled company		
Rental expense paid to a company controlled by common shareholders	**144,000**	136,000
Transactions with a Board director and shareholder		
Legal fees	**233,250**	88,315
Transactions with an associate		
Sales to Groupe Global LXR Inc.	**—**	549,783
Business combination		
Reacquisition of Groupe Global LXR Inc. *(note 8)*	**3,384,086**	—

Significant Accounting Judgements, Estimates and Assumptions

The preparation of the consolidated financial statements in conformity with IFRS requires the Company to make judgments, apart from those involving estimation, in applying accounting policies that affect the recognition and measurement of assets, liabilities, revenues and expenses. Actual results may differ from the judgments made by the Company. Information about judgments that have the most significant effect on recognition and measurement of assets, liabilities, revenues and expenses are discussed below. Information about significant estimates is discussed below:

Key sources of estimation uncertainty

i. Inventory valuation

The Company records a write-down to reflect management's best estimate of the net realizable value of inventory which includes assumptions and estimates for future sell-through of units, selling prices as well as disposal costs, where appropriate, based on historical experience. Management continually reviews the carrying value of its inventory, to assess whether the write-down is adequate, based on current economic conditions and an assessment of sales trends.

As at December 31, 2017, the provision for inventory obsolescence is $120,137 (nil as at December 31, 2016). The net change of the provision for inventory obsolescence was charged to the cost of sales in the consolidated statement of loss and comprehensive loss.

ii. Sales returns

Sales returns are estimated on the basis of historical returns and are recorded so as to allocate them to the same period as the original revenue is recorded. Accumulated experience is used to estimate and provide for such returns.

Critical judgements in applying accounting policies

i. Determining the achievement of control

Management used judgement in determining the effective date on which the Company obtained control of Global (note 8). Management determined the Company effectively obtained control of Global on January 7, 2017, which is a date earlier than the closing date of June 10, 2017, since the re-acquisition was approved by common shareholders and only pending on legal documentation finalization.

ii. Income taxes

The Company may be subject to audits related to tax risks, and uncertainties exist with respect to the interpretation of tax regulations, changes in tax laws, and the amount and timing of future taxable income. Differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to taxable income and income tax expense already recorded.

The Company establishes provisions if required, based on reasonable estimates, for possible consequences of audits by the tax authorities. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the entity and the responsible tax authority, which may arise on a wide variety of issues.

The Company recognizes deferred income tax assets for unused tax losses and deductible temporary differences only to the extent that, in management's opinion, it is probable that future taxable income will be available against which they can be utilized. Deferred income tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Significant New Accounting Standards Not Yet Adopted

IFRS 9, "Financial Instruments" ("IFRS 9"), partially replaces the requirements of IAS 39, "Financial Instruments: Recognition and Measurement". This standard is the first step in the project to replace IAS 39. The IASB intends to expand IFRS 9 to add new requirements for the classification and measurement of financial liabilities, derecognition of financial instruments, impairment and hedge accounting to become a complete replacement of IAS 39. These changes are applicable for annual periods beginning on or after January 1, 2018, with earlier application permitted. The adoption of this new standard will not have a significant impact on the consolidated financial statements of the Company.

IFRS 15, "Revenue from Contracts with Customers" ("IFRS 15") replaces IAS 11, "Construction Contracts", and IAS 18, "Revenue", as well as various interpretations regarding revenue. This standard introduces a single model for recognizing revenue that applies to all contracts with customers, except for contracts that are within the scope of standards on leases, insurance and financial instruments. This standard also requires enhanced disclosures. Adoption of IFRS 15 is mandatory and will be effective for annual periods beginning on or after January 1, 2018. The Company is currently finalizing its assessment of the impacts of adopting this standard on the Company's consolidated financial statements and related note disclosures. The Company's preliminary position is that the adoption of this new standard will not have a significant impact on the consolidated financial statements of the Company.

IFRS 16, “Leases” (“IFRS 16”) replaces IAS 17, “Leases”. This standard provides a single model for leases abolishing the current distinction between finance and operating leases, with most leases being recognized in the statement of financial position. Certain exemptions will apply for short-term leases and leases of low value assets. The new standard will be effective for annual periods beginning on or after January 1, 2019. Early application is permitted, provided the new revenue standard, IFRS 15, has been applied, or is applied at the same date as IFRS 16. The Company is currently assessing the impact of adopting this standard on its consolidated financial statements and related note disclosures.

Risk Factors

LXRandCo is subject to a variety of financial risks in the normal course of operations including foreign exchange, interest rate, credit and liquidity risk. LXRandCo’s overall risk management program and business practices seek to minimize any potential adverse effects on its consolidated financial performance. The forgoing risk factors are only a summary of certain risk factors and are qualified in their entirety by reference to, and must be read in conjunction with, the detailed information appearing under the headings “Risk Factors” and “Management’s Discussion and Analysis of LXR – Risk Factors” in the Final Prospectus, under the heading Risk Factors in the Final Short Form Prospectus, and the risk factors and as described from time to time in the reports and disclosure documents filed by the Company with the Canadian securities regulatory agencies and commissions.

Additional Information

Additional information relating to the Company is available on SEDAR at www.sedar.com.