LXRandCo, Inc.

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

Second Quarter – Three-Month Period Ended June 30, 2018

August 14, 2018

The following management's discussion and analysis ("MD&A") is prepared as of August 14, 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 unaudited condensed interim consolidated financial statements of LXRandCo and notes thereto for the quarter and six month period ended June 30, 2018 and the MD&A for the year ended December 31, 2017.

Basis of Presentation

The condensed interim 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 condensed interim consolidated financial statements and notes thereto for the three-month and six-month periods ended June 30, 2018 and this MD&A were approved by the Board of Directors on August 14, 2018.

The Company's results for the second quarter and six-month period ended June 30, 2018 have not, at this time, been reviewed by the Company's auditors, as is the Company's historical practice, due to certain normal course outstanding audit activities that are still to be completed.

Going Concern Uncertainty

The accompanying unaudited condensed interim consolidated financial statements have been prepared by management on a going concern basis, which presumes the Company will continue its operations for the foreseeable future and will be able to realize on its assets and discharge its liabilities and commitments in the ordinary course of business for the foreseeable future. As reflected in the accompanying condensed interim consolidated financial statements, during the six-month period ended June 30, 2018, the Company incurred a net loss of $13.5 million and used cash in operations of $10.0 million. The use of the going concern basis may not be appropriate. These results raise doubt about the Company's ability to continue as a going concern within one year after the date that the amended and restated financial statements are issued without obtaining additional financial resources or realizing successfully its updated strategic plan.

The financial statements do not include any adjustments to the amounts and classification of assets and liabilities that might be necessary should the Company be unable to continue as a going concern.

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, entering into new and/or expanded retail partnerships in North America, 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 LXRandCo's Annual Information Form dated May 29, 2018 (the "**Annual Information Form**"), 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 an 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 primarily in major department stores in Canada and the United States; 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 June 30, 2018, LXRandCo’s retail network consisted of 119 stores with nine located in Canada, 98 in the United States, and 12 in Europe. LXRandCo has offices in Montréal, Canada, 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.

With the appointment of new President and Chief Executive Officer, Steven Goldsmith, and the subsequent announcement and implementation of the Company’s updated strategic plan announced on June 13, 2018 (of the “Updated Strategic Plan”), it is the CEO's intention to address any operational and accounting related matters (e.g. store network, inventory, goodwill valuation, cost structure), prior to the end of the second quarter 2018 to be in a position to report financial results in the third quarter of 2018 going forward that enable shareholders to clearly assess the impact of the updated strategic plan on the Company’s financial results

Intention to Restate 2017 Consolidated Financial Statements

On August 14, 2018, management announced that it intendsto restate its consolidated financial statements as at and for the years ended December 31, 2017 and 2016 (the “2017 Amended and Restated Financial Statements”) and corresponding management discussion and analysis for the years ended December 31, 2017, as well as the three-month and six-month periods ended June 30, 2017. Management determined that a restatement of the originally filed consolidated financial statements and corresponding management discussions and analysis for the year ended December 31, 2017 is required in respect of the accounting treatment of the equity consideration resulting from the acquisition of LXR Produits de Luxe International Inc. (“LXR International”) that occurred on June 9, 2017 (the “LXR Acquisition”). The restatement has no impact on the past and current aggregate cash flows of the Company and in no way affects the Company’s business operations. All restatements relating to the 2017 consolidated financial statements have been reflected throughout this document and further details are provided in the Company’s Notes to the condensed interim consolidated financial statements for the three-month and sic-month periods ended June 20, 2018 and 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.

Three-Month Period Ended June 30, 2018 Compared to Three-Month Period Ended June 30, 2017(restated)

Select financial highlights include the following:

- Net revenue increased by 39% to $9.9 million in the three-month period ended June 30, 2018 from $7.2 million in the three-month period ended June 30, 2017.

- Net e-Commerce revenue increased to 6.3% of total net revenue in the three-month period ended June 30, 2018 from 6.2% of net revenue in the three-month period ended June 30, 2017.

- The retail network consisted of 119 stores as at June 30, 2018, compared to 61 at June 30, 2017. The Company opened 16 stores in the three-month period ended June 30, 2018, which was offset by the closure of 32 stores (including 14 stores as a result of the bankruptcy and wind-down of operations of the Company’s retail partner, The Bon-Ton Stores, Inc., and 15 of its 27 stores in Europe as a result of the Company’s decision to close all European stores and focus its retail presence in the U.S. and Canada). Subsequent to June 30, 2018, the Company closed all European stores in addition to 16 store locations with retail partner Burlington, which in aggregate have underperformed compared to other U.S. retail partners.

- Gross profit increased by 3.4% to $2.1 million in the three-month period ended June 30, 2018 from $2.0 million in the three-month period ended June 30, 2017 and was impacted by an outsized inventory shrinkage expense due to the large number of store closures described above and a prolonged period since the previous inventory count. Excluding the outsized inventory shrinkage expense, gross profit for the three-month period ended June 30, 2018 increased by 21% to $2.5 million compared to $2.0 million in the three-month period ended June 30, 2017.

- Gross profit margin was 21.2% of net revenue in the three-month period ended June 30, 2018, compared to 28.4% in the three-month period ended June 30, 2017. Excluding the Company’s increased shrinkage expense in the three-month period ended June 30, 2018, gross profit margin would have been 24.8%.

- Net loss was $9.2 million in the three-month period ended June 30, 2018, compared to $45.7 million in the three-month period ended June 30, 2017. Net loss for the three-month period ended June 30, 2018 includes a good will impairment charge of $3.7 million.

- Adjusted EBITDA (a non-IFRS measure) was $(5.4) million in the three-month period ended June 30, 2018, compared to $(0.6) million in the three-month period ended June 30, 2017. Excluding the Company’s European and Burlington locations, Adjusted EBITDA for the three-month period ended June 30, 2018 was $(4.4) million compared to $(0.5) million in the three-month period ended June 30, 2017.

- Adjusted Net Loss (a non-IFRS measure) was $6.1 million in the three-month period ended June 30, 2018, compared to $0.9 million in the three-month period ended June 30, 2017. Excluding the Company’s European and locations, Adjusted Net Loss for the three-month period ended June 30, 2018 was $5.0 million compared to $0.7 million in the three-month period ended June 30, 2017.

- Cash used in operating activities in the three-month period ended June 30, 2018 improved significantly to $2.7 million from $4.5 million in the prior period (and from $8.2 million for the first quarter ended March 31, 2018);

- Average productivity for the Company's 37 stores that were open for 12 months or more was approximately $2,044 per square foot; and

- The number of employees increased by 176 in the three-month period ended June 30, 2018 to 399, compared to 223 employees as at June 30, 2017.

Six-Month Period Ended June 30, 2018 Compared to Six-Month Period Ended June 30, 2017(restated)

- Net revenue increased by 50% to $19.9 million in the six-month period ended June 30, 2018 from $13.3 million in the six-month period ended June 30, 2017.

- Net e-Commerce revenue decreased to 6.6% of total net revenue in the six-month period ended June 30, 2018 compared to 6.7% in the six-month period ended June 30, 2017.

- The retail network consisted of 119 stores as at June 30, 2018, compared to 61 stores as at June 30, 2017. The Company opened 23 stores in the six-month period ended June 30, 2018, which was offset by the closure of 35 stores (including three Burlington stores, 14 stores as a result of the bankruptcy and wind-down of operations of the Company's retail partner, The Bon-Ton Stores, Inc., and 15 of its 27 stores in Europe as a result of the Company's decision to close all European stores and focus its retail presence in the U.S. and Canada). Subsequent to June 30, 2018, the Company closed all its European stores in addition to 16 store locations with retail partner Burlington, which in aggregate have underperformed compared to other U.S. retail partners.

- Gross profit increased by 16.2% to $4.5 million in the six-month period ended June 30, 2018 from $3.8 million in the six-month period ended June 30, 2017 and was impacted by an outsized inventory shrinkage expense due to the large number of store closures described above and a prolonged period since the previous inventory count. Excluding the outsized inventory shrinkage expense, gross profit for the six-month period ended June 30, 2018 increased by 31% to $5.0 million compared to $3.8 million in the six-month period ended June 30, 2017.

- Gross profit margin was 22.4% of net revenue in the six-month period ended June 30, 2018, compared to 28.8% in the six-month period ended June 30, 2017. Excluding the Company's increased shrinkage expense in the six-month period ended June 30, 2018, gross profit would have been 25.2%.

- Net loss was $13.4 million in the six-month period ended June 30, 2018, compared to $43.6 million in the six-month period ended June 30, 2017.

- Adjusted EBITDA (a non-IFRS measure) was $(9.2) million in the six-month period ended June 30, 2018, compared to $(0.9) million in the six-month period ended June 30, 2017. Excluding the Company's European and Burlington locations, Adjusted EBITDA for the six-month period ended June 30, 2018 was $(7.3) million compared to $(0.8) million in the six-month period ended June 30, 2017.

- Adjusted Net Loss (a non-IFRS measure) was $10.5 million in the six-month period ended June 30, 2018, compared to $1.6 million in the six-month period ended June 30, 2017. Excluding the Company's European and Burlington locations, Adjusted Net Loss for the six-month period ended June 30, 2018 was $8.5 million compared to $1.5 million in the six-month period ended June 30, 2017.

- Average productivity for the Company's 37 stores that were open for 12 months or more was approximately $2,044 per square foot; and

- The number of employees increased by 176 in the six-month period ended June 30, 2018 to 399, compared to 223 employees as at June 30, 2017.

Additional Highlights and Subsequent events

Select other highlights in the three-months ended June 30, 2018, and subsequent to June 30, 2018 include:

Announcement of Updated Strategic Plan

On June 13, 2018, the Company announced an updated strategic plan at the annual shareholder's meeting. The plan focuses on disciplined top-line growth, margin expansion, and sustainable cash flow generation. The key components of the strategic plan are as follows:

- As a result of LXRandCo's European business negatively impacting the Company's bottom line due to higher corporate costs needed to support an overseas business, the Company announced that it will close all of its 27 stores in Europe. As at June 30, 2018, the Company closed 15 of 27 stores in Europe and it intends close the remaining stores before the next quarter. In addition, the Company will embark on a cost reduction plan to bring selling, general and administrative costs in line with the revised revenue growth trajectory.

- LXRandCo announced it will refocus its physical retail network presence only in the U.S. and Canada and target designated market areas in which the Company was previously not represented or under-represented. At that time, the Company was intending to open 55 new locations throughout the remainder of the year. Currently, the Company is planning to proceed more conservatively with new store openings.

- The Company intends to pursue new growth initiatives for its established wholesale business, which it expects will expand its reach beyond the targeted DMAs for its retail network. In addition, over time, the Company will continue to expand its direct-from-consumer purchasing program.

- LXRandCo will streamline its product offering solely to branded vintage luxury women's handbags and accessories, the Company's core competency and, typically, the customer's primary entry point to luxury brands.

- LXRandCo plans to increase its focus and attention on servicing its customer across multiple channels. The Company will intensify its efforts to grow its underpenetrated e-commerce opportunity through initiatives related to its own e-commerce site (www.lxrco.com), better leveraging its retail partners' digital strategies and increasing its affiliate relationships.

- In addition to the anticipated benefits to gross margin from the increased geographical and product focus, LXRandCo expects gross margin to benefit from increased e-commerce and wholesale sales over both the short- and medium-term, as well as from more efficient logistics and a more disciplined inventory purchasing approach.

Strategic Review

LXRandCo's board of directors, with the support of management, have formed a special committee of independent directors (the "Strategic Review Committee") to identify and evaluate a broad range of strategic and financing alternatives available to the Company to unlock the value of LXRandCo's unique omnichannel platform. These alternatives could include, among other things, equity financing solutions, the sale of part or all of the Company, a sale of some of the assets of the Company, a merger or other business combination with another party, any combination of the forgoing, or other strategic transactions. The board of directors has not set a timetable for the evaluation of alternatives, and there can be no assurance that any alternative will be implemented. The Company does not intend to provide announcements or updates unless or until it determines that further disclosure is appropriate or necessary. The Strategic Review Committee will be chaired by Stephane Guerin and includes Javier San Juan and Lauri Kien Kotcher.

Customer Receivable at Risk

Subsequent to June 30, 2018, the Company was informed of the financial situation of a specific customer which may result in recoverability risk of an accounts receivable balance of $0.5 million. A provision was recorded for the entire amount receivable as at June 30, 2018. Management is taking action to recover all or some of the inventory and/or the accounts receivable balance.

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 “Annual Information Form” 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

LXRandCo's has refocused its physical retail network presence to exclusively service the U.S. and Canada and plans to close all of its 27 stores in Europe before September 30, 2018. 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

As the Company's retail network expands, LXRandCo's business is expected to be progressively subject to more pronounced seasonality. A higher proportion of net revenue is expected to be generated in the fourth quarter, whereas the least amount of net revenus is expected to be generated in the first quarter. The following summarizes the average quarterly contribution over the past two years:

First fiscal quarter	17%
Second fiscal quarter	20%
Third fiscal quarter	24%
Fourth fiscal quarter	39%
Yearly total	100%

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 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 and the United States.

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.

The Company applies, for the first time, IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments. The application of these new standards did not have an impact on the interim condensed consolidated financial statements of the Company (Note 4 of the unaudited condensed interim consolidated financial statements for the period ended June 30, 2018).

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 foreign exchange loss (gain), convertible redeemable preferred shares dividends, non-recurring gain from a step business combination, gain on expiration of warrants, stock-based compensation, and impairment of goodwill 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 foreign exchange loss (gain), convertible redeemable preferred share dividends, non-recurring gain from step business combination, gain on expiration of warrants, stock-based compensation, and impairment of goodwill 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 results for the three-month and six-month periods ended June 30, 2018 compared to the restated results for the three-month and six-month periods ended June 30, 2017:

	For the Three-Months Ended June 30,		For the Six-Months Ended June 30,	
Consolidated statements of loss and comprehensive loss:	**2018**	**2017**	**2018**	**2017**
Net revenue	**$9,940,014**	**$7,174,723**	**$19,912,528**	**$13,320,685**
Cost of sales	7,831,998	5,136,572	15,445,691	9,478,026
Gross profit	**2,108,016**	**2,038,151**	**4,466,837**	**3,842,659**
Selling, general and administrative expenses	6,948,914	2,872,517	13,219,641	5,455,144
Amortization and depreciation expenses	174,197	73,395	444,224	156,387
Impairment of goodwill	3,683,987	—	3,683,987	—
Results from operating activities	**(8,699,082)**	**(907,761)**	**(12,881,015)**	**(1,768,872)**
Finance costs	496,959	308,222	774,374	666,793
Debt extinguishment costs	—	612,939	—	612,939
Foreign exchange loss (gain)	(72,306)	(72,355)	(249,251)	(3,275)
Change in fair value of convertible redeemable preferred shares	—	188,355	—	226,101
Convertible redeemable preferred share dividends	—	—	—	48,112
Change in fair value of warrants	—	—	—	257,532
Non-recurring gain from a step business combination	—	—	—	(1,465,090)
Excess of fair value over net assets acquired	—	43,081,701	—	43,081,701
Non-recurring acquisition costs	—	774,785	—	774,785
Gain on expiration of warrants	—	—	—	(2,401,402)
Loss before income taxes	**(9,123,735)**	**(45,801,408)**	**(13,406,138)**	**(43,567,068)**
Income tax expense				
Current	38,661	85,876	38,661	86,996
Deferred	—	(197,531)	44,000	(197,531)
	38,661	(111,655)	82,661	(110,535)
Net loss for the period	**(9,162,396)**	**(45,689,753)**	**(13,488,799)**	**(43,456,533)**
Other comprehensive income (loss)				
Cumulative translation adjustment	(69,019)	127,987	(69,019)	32,263
Comprehensive loss for the period	**(9,231,415)**	**(45,561,766)**	**(13,557,819)**	**(43,424,270)**

Percentage of net revenue:	For the Three-Months Ended June 30, 2018	2017	For the Six-Months Ended June 30, 2018	2017
Net revenue	**100%**	**100%**	**100%**	**100%**
Cost of sales	79%	72%	78%	71%
Gross Profit	**21%**	**28%**	**22%**	**29%**
Selling, general and administrative expenses	70%	40%	66%	41%
Amortization and depreciation expenses	2%	1%	2%	1%
Impairment of goodwill	37%	0%	19%	0%
Results from operating activities	**(88%)**	**(13%)**	**(65%)**	**(13%)**
Finance costs	5%	4%	4%	5%
Debt extinguishment costs	0%	9%	0%	5%
Foreign exchange loss (gain)	(1%)	(1%)	(1%)	0%
Change in fair value of convertible redeemable preferred shares	0%	3%	0%	2%
Convertible redeemable preferred share dividends	0%	0%	0%	0%
Change in fair value of warrants	0%	0%	0%	2%
Non-recurring gain from a step combination	0%	0%	0%	(11%)
Excess of fair value over net assets acquired	0%	600%	0%	323%
Non-recurring acquisition costs	0%	11%	0%	6%
Gain on expiration of warrants	0%	0%	0%	(18%)
Loss before income taxes	**(92%)**	**(638%)**	**(67%)**	**(327%)**
Income tax expense				
Current	0%	1%	0%	1%
Deferred	0%	(3%)	0%	(1%)
	0%	(2%)	0%	(1%)
Net loss	**(92%)**	**(637%)**	**(68%)**	**(326%)**
Other comprehensive income (loss)				
Cumulative translation adjustment	(1%)	2%	0%	0%
Comprehensive loss	**(93%)**	**(635%)**	**(68%)**	**(326%)**

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 Three-Months Ended June 30, 2018	2017	For the Six-Months Ended June 30, 2018	2017
Net loss	**($9,162,396)**	**($45,689,753)**	**($13,488,799)**	**($43,456,533)**
Amortization and depreciation expense	174,197	73,395	444,224	156,387
Finance Costs	496,959	308,222	774,374	666,793
Income tax expense	38,661	(111,655)	82,661	(110,535)
EBITDA	**(8,452,579)**	**(45,419,791)**	**(12,187,540)**	**(42,743,888)**
Adjustments to EBITDA:				
Debt extinguishment costs	—	612,939	—	612,939
Foreign exchange loss (gain)	(72,306)	(72,355)	(249,251)	(3,275)

Reconciliation of net loss to EBITDA and Adjusted EBITDA:	For the Three-Months Ended June 30, 2018	For the Three-Months Ended June 30, 2017	For the Six-Months Ended June 30, 2018	For the Six-Months Ended June 30, 2017
Change in fair value of convertible redeemable preferred share dividends	—	188,355	—	226,101
Convertible redeemable preferred share dividends	—	—	—	48,112
Change in fair value of warrants	—	—	—	257,532
Non-recurring gain from a step combination	—	—	—	(1,465,090)
Excess of fair value over net assets acquired	—	43,081,701	—	43,081,701
Non-recurring acquistion costs	—	774,785	—	774,785
Gain on expiration of warrants	—	—	—	(2,401,402)
Impairment of goodwill	3,683,987	—	3,683,987	—
Stock-based compensation expense	(547,732)	247,439	(459,226)	735,975
Adjusted EBITDA	**(5,388,630)**	**(586,927)**	**(9,212,030)**	**(876,510)**
Adjusted EBITDA Margin	**(54.2%)**	**(8.2%)**	**(46.3%)**	**(6.6%)**

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

Reconciliation of net loss to Adjusted Net Loss:	For the Three-Months Ended June 30, 2018	For the Three-Months Ended June 30, 2017	For the Six-Months Ended June 30, 2018	For the Six-Months Ended June 30, 2017
Net loss	**(9,162,396)**	**(45,689,753)**	**(13,488,799)**	**(43,456,533)**
Adjustments to net loss:				
Debt extinguishment costs	—	612,939	—	612,939
Foreign exchange loss (gain)	(72,306)	(72,355)	(249,251)	(3,275)
Change in fair value of convertible redeemable preferred share dividends	—	188,355	—	226,101
Convertible redeemable preferred share dividends	—	—	—	48,112
Change in fair value of warrants	—	—	—	257,532
Non-recurring gain from a step combination	—	—	—	(1,465,090)
Excess of fair value over net assets acquired	—	43,081,701	—	43,081,701
Non-recurring acquisition costs	—	774,785	—	774,785
Gain on expiration of warrants	—	—	—	(2,401,402)
Impairment of goodwill	3,683,987	—	3,683,987	—
Stock-based compensation expense	(547,732)	247,439	(459,226)	735,975
Adjusted Net Loss	**(6,098,447)**	**(856,889)**	**(10,513,289)**	**(1,589,155)**

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

Selected retail network data:	For the Three-Months Ended June 30, 2018	For the Three-Months Ended June 30, 2017	For the Six-Months Ended June 30, 2018	For the Six-Months Ended June 30, 2017
Number of stores, beginning of period	135	47	133	46
Store openings	16	15	23	18
Store closures	32	1	37	3
Number of stores, end of period	**119**	**61**	**119**	**61**

Results of Operations

Analysis of Results for the Three-Month Period ended June 30, 2018 Compared to the Three-Month Period ended June 30, 2017 (restated)

The following section provides an overview of LXRandCo's financial performance during the three-month period ended June 30, 2018 compared to the restated results for three-month period ended June 30, 2017.

Net Revenue

Net revenue increased by 39% to $9.9 million in the three-month period ended June 30, 2018 from $7.2 million in the three-month period ended June 30, 2017. The increase in net revenue was primarily attributable to the increase in sales from LXRandCo operating 58 more stores by the end of the three-month period ended June 30, 2018 compared to the number of stores at the end of the three-month period ended June 30, 2017. LXRandCo's retail network consisted of 119 stores as at June 30, 2018 compared to 61 stores as at June 30, 2017. There were 16 new store openings in the three-month period ended June 30, 2018, all of them with an existing retail partner in the United States. LXRandCo closed 32 stores in the period, of which 17 were in the United States, three in Germany, and two in the UK. The increase in net revenue was also due to another quarter of revenue growth from e-Commerce revenue to $0.6 million.

During the quarter, net revenue from Canada, the United States, the United Kingdom and Europe were 12.6%, 80.8%, 1.2% and 5.4%, respectively. In the United States, LXRandCo's largest market, net revenue increased 72.5% from the prior period as LXRandCo continued to open new stores.

Gross Profit

Gross profit increased by 3.4% to $2.1 million in the three-month period ended June 30, 2018 from $2.0 million in the three-month period ended June 30, 2017. The increase was primarily attributable to the increase in net revenue.

Gross profit margin was 21.2% in the three-month period ended June 30, 2018, compared to 28.4% in the three-month period ended June 30, 2017. The decrease in gross profit margin was due to several factors, including:

- Outsized inventory shrinkage expense due to the large number of store closures and a prolonged period since the previous inventory count, which is now occurring on a regular basis to reduce future shrinkage. Excluding the increase in the shrinkage expense, the gross profit margin would have been 24.8%, an improvement from 23.7% for the period ended March 31, 2018;
- The addition to the omni-channel network of new retail partners with higher licensing fee rates that started in the fourth quarter of 2017;
- The potential for slow-moving inventory given the increase in the size of the omni-channel network;
- An unfavourable foreign exchange impact, mainly linked to a decrease in the value of the US Dollar, as a large portion of sales are in the United States;

SG&A Expenses

SG&A expenses were $7.0 million in the three-month period ended June 30, 2018, compared to $2.9 million in the three-month period ended June 30, 2017.

The increase was due to several factors including:

- Expansion of the retail network, which increased salaries and related costs for in-store staff by $0.9 million to $2.7 million in the three-month period ended June 30, 2018 from $1.8 million in the three-month period ending June 30, 2017 ;
- Increase in costs of re-deploying inventory and fixtures from Bonton stores to new locations in addition to Burlington store-closure costs ($0.2 million);
- Increase in store closing costs as a result of the Company being in the process of closing all of its 27 stores in Europe ($0.4 million);
- Increased headcount relating to head office and support personnel; and
- Public company costs such as professional and consulting fees.

SG&A expenses were 69.9% of net revenue in the three-month period ended June 30, 2018, compared to 40.0% of net revenue in the three-month period ended June 30, 2017. Compared to the previous quarter of the current year, SG&A expenses are up by 10.8%, mainly due to the increase in store closure related costs and corporate office and retail network salaries & wages.

The number of employees increased by 176 in the three-month period ended June 30, 2018 to 399, compared to 223 employees as at June 30, 2017.

Net Loss

Net loss was $9.2 million in the three-month period ended June 30, 2018, compared to $45.7 million in the three-month period ended June 30, 2017. The increase in profitability was largely attributable to the lower SG&A expenses. Other factors which contributed to the Net Loss in each period was an impairment of goodwill charge of $3.7 million in the three-month period ended June 30, 2018 and excess of fair value over net assets acquired charge of $43.1 million in the three-month period ended June 30, 2017.

Adjusted Net Loss

Adjusted Net Loss was $6.1 million in the three-month period ended June 30, 2018, compared to adjusted net loss of $0.9 million in the three-month period ended June 30, 2017. This increase was the result of the factors discussed above, primarily lower gross margin and higher SG&A expenses.

Adjusted EBITDA

Adjusted EBITDA was ($5.4) million in the three-month period ended June 30, 2018, compared to ($0.6) million in the three-month period ended June 30, 2017. This increase was primarily due to the factors discussed above. Adjusted EBITDA Margin was (54.2%) of net revenue in the three-month period ended June 30, 2018, compared to (8.2%) of net revenue in the three-month period ended June 30, 2017. This decrease was primarily due to the factors discussed above.

Analysis of Results for Six-Month Period Ended June 30, 2018 Compared to Six-Month-Period Ended June 30, 2017(restated)

The following section provides an overview of LXRandCo's financial performance during the six-month period ended June 30, 2018 compared to the restated results for the six-month period ended June 30, 2017.

Net Revenue

Net revenue increased by 50% to $19.9 million the six-month period ended June 30, 2018 from $13.3 million in the six-month period ended June 30, 2017. The increase in net revenue was primarily attributable to the increase in sales from LXRandCo operating 58 more stores by the end of the six-month period ended June 30, 2018 compared to the number of stores at the end of the six-month period ended June 30, 2017. LXRandCo's retail network consisted of 119 stores as at June 30, 2018 compared to a retail network of 61 stores as at June 30, 2017. The increase in net revenue was also due to an increase in wholesale revenue from fewer clients, and an increase in e-Commerce revenue which was primarily attributable to a more favourable customer experience as a result of certain initiatives such as the release of the Company's new web portal in mid-March 2017 and the benefit of increased marketing and social media activity undertaken in the first quarter of 2017.

Gross Profit

Gross profit increased by 16.2% to $4.5 million in the six-month period ended June 30, 2018 from $3.8 million in the six-month period ended June 30, 2017. The change was primarily attributable to the increase in net revenue.

Gross profit margin was 22.4% of net revenue in the six-month period ended June 30, 2018, compared to 28.8% of net revenue in the six-month period ended June 30, 2017. The decrease in gross profit margin was primarily due to the increase in shrinkage expense of the current period. Excluding the increase in the shrinkage expense, the gross profit margin would have been 25.2%.

SG&A Expenses

SG&A expenses were $13.2 million in the six-month period ended June 30, 2018, compared to $5.5 million in the six-month period ended June 30, 2017. The increase was primarily due to higher store staffing expenses resulting from the expansion of LXRandCo's retail network, increased headcount expenses relating to head office and other support personnel required to manage a constantly changing retail network, increased e-Commerce expenses and the incurrence of public company costs which were not present until mid-way throughout fiscal 2017.The number of employees grew by 176 in the six-month period ended June 30, 2018 to 399 compared to an increase of 48 in the six-month period ended June 30, 2017 to 223.

SG&A expenses were 66.4% of net revenue in the six-month period ended June 30, 2018, compared to 41.0% of net revenue in the six-month period ended June 30, 2017. The increase was primarily due to the increase in store closure costs in addition to LXRandCo's operating for a full year as a public company resulting in increased administrative costs. Corporate office and Retail store SG&A expenses explain the majority of the increase with salaries & wages and professional fees.

Net Loss

Net loss was $13.5 million in the six-month period ended June 30, 2018, compared to a net loss of $43.5 million in the six-month period ended June 30, 2017. The decrease in net loss was driven by the factors discussed above, and in addition, an increase in stock-based compensation.

Adjusted Net Loss

Adjusted Net Loss was $10.5 million in the six-month period ended June 30, 2018, compared to $1.6 million in the six-month period ended June 30, 2017. 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.

Adjusted EBITDA

Adjusted EBITDA was $(9.2) million in the six-month period ended June 30, 2018, compared to $(0.9) million in the six-month period ended June 30, 2017. This decrease was primarily due to the factors discussed above.

Adjusted EBITDA Margin was (46.3)% of net revenue in the six-month period ended June 30, 2018, compared to (6.6)% of net revenue in the six-month period ended June 30, 2017. This decrease was primarily due to the factors discussed above

Outlook

Since assuming the President and Chief Executive Officer role, Mr. Goldsmith has begun to lead a comprehensive review of LXRandCo's operations, business opportunities and growth strategy with the intention of evolving the business model and strategy to fully capitalize on the Company's opportunities in the rapidly emerging vintage luxury sector, with a specific focus on disciplined growth, while increasing gross margin and profitability. The Company publicly communicated changes to its business model, growth strategy and/or outlook at the Company's Annual Meeting of Shareholders held on June 13, 2018, which is summarized above. In addition, the Company is undertaking a strategic review to more fully assess how to better execute the Company's new strategic direction.

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 five 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.

	2018		**2017**			
Consolidated statements of loss and comprehensive loss:	**Q2**	**Q1**	**Q4(1)**	**Q3(1)**	**Q2(1)**	**Q1(1)**
Net revenue	**$9,940,014**	**$9,972,514**	**$14,955,371**	**$ 8,793,081**	**$7,174,723**	**$ 6,145,962**
Gross profit...........................	2,108,016	2,358,821	3,504,568	2,859,982	2,038,151	1,804,508
Results from operating activities	(8,699,082)	(4,181,933)	(3,040,889)	(1,235,059)	(907,761)	(861,111)
Income(loss) before income taxes	(9,123,735)	(4,282,403)	(3,117,376)	(2,120,592)	(45,801,096)	2,234,028
Net income (loss)..................	(9,162,396)	(4,326,403)	(3,448,839)	(2,045,432)	(45,689,441)	2,232,908
Basic	(0.64)	(0.32)	(0.30)	(0.18)	(7.43)	0.49
Fully diluted	(0.64)	(0.32)	(0.30)	(0.18)	(7.43)	0.31
Adjusted Net Loss	(6,098,447)	(4,414,841)	(3,191,512)	(903,400)	(856,516)	(732,639)
Adjusted EBITDA	(5,388,630)	(3,823,399)	(2,345,499)	(832,644)	(586,927)	(289,583)

(1) Refer to unaudited interim consolidated financial statements for nature of 2017 restatements.

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 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 and borrowings under revolving credit facilities. As at June 30, 2018, LXRandCo’s working capital was $11.7 million.

Credit Facilities and Other Indebtedness

The following summarizes the indebtedness incurred by LXRandCo as at June 30, 2018. This summary should be read in conjunction with the unaudited condensed consolidated financial statements of the Company and notes thereto for the three-month and six-month periods ended June 30, 2018 and the audited consolidated financial statements and notes thereto for the year ended December 31, 2017.

Credit Facilities

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 (3.45% as at June 30, 2018) or U.S. base rate if denominated in U.S. dollars (5.00% as at June 30, 2018) plus an applicable margin of 0.50%, (b) the banker’s acceptance rate (1.56% as at June 30, 2018), plus an applicable margin of 2.00% or LIBOR (2.09% as at June 30, 2018) 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, 2020 and all covenants were met at June 30, 2018. As at June 30, 2018, the Company had drawn $9,258,004 on the available balance.

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 June 30, 2018.

Cash Flows

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

Cash Flow Data:	For the Three-Months Ended June 30, 2018	2017	For the Six-Months Ended June 30, 2018	2017
Cash flows provided by (used in) operating activities	$(2,744,671)	$(4,515,541)	$(9,979,173)	$(7,123,442)
Cash provided by (used in) investing activities..................	(1,126, 428)	(294,425)	(2,921,904)	304,933
Cash provided by (used in) financing activities..................	$249,765	10,765,628	13,691,884	12,162,654
Effect of exchange rate changes on cash and cash equivalents	(132,277)	(7,243)	(69,846)	(15,448)
Increase (decrease) in cash during the period.................	(3,758,611)	5,948,419	720,961	5,328,697
Cash, beginning of period...	8,494,597	319,244	4,015,025	938,966
Cash, end of period	4,735,986	6,267,663	4,735,986	6,267,663

Analysis of Cash Flows for the three-month period ended June 30, 2018 compared to the three-month period ended June 30, 2017

For the three-month period ended June 30, 2018, cash used in operating activities was $2.7 million, compared to $4.5 million for three-month period ended June 30, 2017, a decreased use of cash of $1.8 million. This decrease was primarily attributable to the decrease of Stock-based compensation expense as a result of the 2017 restatement accounting treatment of this amount.

For the three-month period ended June 30, 2018, cash used by investing activities was $1.1 million as compared to $0.3 million for the three-month period ended June 30, 2017, an increased use of cash of $0.8 million. This decrease was primarily due to the cash acquired in the context of the LXR Acquisition last year which was not renewed in the current year. As such, more cash was used as a result of capital asset additions acquired in the quarter.

For the three-month period ended June 30, 2018, cash flows provided by financing activities was $0.3 million compared to cash used in financing activities of $10.8 million for the three-month period ended June 30, 2017, a decreased use of cash of $10.5 million. This decrease was primarily attributable to the cash that was received in 2017 as a result of the LXR acquisition.

For the three-month period ended June 30, 2018, the net decrease in cash was $3.8 million, compared to a net increase of $6.0 million for the three-month period ended June 30, 2017, which resulted in an ending cash balance on June 30, 2018 of $4.7 million compared to $6.3 million on June 30, 2017.

Analysis of Cash Flows for the six-month period ended June 30, 2018 compared to the six-month period ended June 30, 2017

For the six-month period ended June 30, 2018, cash used in operating activities was $10.0 million, compared to $7.1 million for six-month period ended June 30, 2017, an increased use of cash of $2.9 million. This increase was primarily attributable to the $8.0 million of cash used in operating activies for the period ended March 31, 2018 with the remaining portion relating to an increase in SG&A expenses.

For the six-month period ended June 30, 2018, cash used by investing activities was $2.9 million as compared to cash provided by investing activities of $0.3 million for the six-month period ended June 30, 2017, an increase in cash used of $3.2 million. This increase was primarily due to the cash acquired in the context of the LXR

Acquisition last year which was not received in the current year. As such, more cash was used as a result of capital asset additions acquired in the two first and second quarter of the current period.

For the six-month period ended June 30, 2018, cash flows provided by financing activities was $13.7 million compared to $12.2 million for the six-month period ended June 30, 2017, an increased use of cash of $1.5 million. This increase was primarily attributable to the increase in credit facility.

For the six-month period ended June 30, 2018, the net increase in cash was $0.7 million, compared to a net increase of $5.3 million for the six-month period ended June 30, 2017, which resulted in an ending cash balance on June 30, 2018 of $4.7 million compared to $6.3 million on June 30, 2017.

Contractual Obligations

The following table summarizes LXRandCo's contractual maturities and carrying amounts of financial liabilities as at June 30, 2018:

	Maturing in under 1 Year	**Maturing in 1 to 5 Years**	**Total**
Contractual Obligations:			
Credit facility	9,258,004	—	9,258,004
Accounts payable and accrued liabilities	4,448,882	—	4,448,882
Other liabilities	—	40,328	40,328
Long-term debt	147,400	—	147,400
Total Contractual Obligations	**13,854,286**	**40,328**	**13,894,614**

Commitments and Contingencies

The following table summarizes LXRandCo's off-balance sheet arrangements and commitments as at June 30, 2018:

	2018	**2019**	**Total**
Off-balance Sheet Commitments:			
Operating Leases	$482,436	$102,661	$585,096

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:

	For the Three-Months Ended June 30,		For the Six-Months Ended June 30,	
	2018	2017	2018	2017
Transactions with a commonly controlled company:				
Rent paid to a company controlled by Fred Mannella and Kei Izawa	73,650	31,913	109,650	63,826
Transactions with a Board director and shareholder				
Legal fees	93,889	—	106,083	—
Business combination				
Reacquisition of Groupe Global LXR Inc.	—	—	—	38,217

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 June 30, 2018, the provision for inventory obsolescence is $43,395 ($21,452 as at March 31, 2018). 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. Goodwill

For the six-month period ended June 30, 2018, operating results were lower than the forecasted results due to several factors, such as the underperformance of certain of its US and Europe retail partners, which negatively impacted the gross margin by higher store costs than anticipated. In addition, the Company's market capitalization has been below the carrying amount of its net assets for the last two consecutive quarters. These factors could suggest that goodwill may have become impaired. Accordingly, interim impairment testing was performed on June 30, 2018 to determine if the carrying amounts of the cash generating units (CGUs) were higher than their recoverable amounts.

Following the impairment test, the Company recognized a goodwill impairment charge of $3.7 million which corresponds to the balance of goodwill of its sole CGU as at June 30, 2018. The recoverable amount is determined based on value in use, using a discounted cash flow model. The Company prepares cash flow forecasts based on the most recently approved annual budgets and three-year forecast of the relevant business. Cash flow forecasts reflect the risk associated with each CGU, as well as the most recent economic indicators. Cash flow forecasts beyond three years are extrapolated based on estimated growth rates that do not exceed the average long-term growth rates for the relevant markets.

As at June 30, 2018, an after-tax discount rate of 35% was used for testing the various CGUs for impairment and the perpetual growth rate used for impairment testing was 2%.

On June 30, 2018, a 1% decrease in the after-tax discount rate used for impairment testing, assuming that all other variables had remained the same, would not have reduced the impairment charge recognized.

On June 30, 2018, a 1% increase in the long-term growth rate used for impairment testing, assuming that all other variables had remained the same, would not have reduced the impairment charge recognized.

On June 30, 2018, a 10% increase in the cash flows used for impairment testing, assuming that all other variables had remained the same, would not have reduced the impairment charge recognized.

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 Applied for the First Time

IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments. The application of these new standards did not have an impact on the interim condensed consolidated financial statements of the Company. IFRS 15 supersedes IAS 18 Revenue and related Interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

IFRS 9 Financial Instruments replaces IAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting. The adoption of IFRS 9 did not have an impact on the Company's consolidated financial statements.

Significant New Accounting Standards Not Yet Adopted

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 Annual Information Form, 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.

Evaluation of Disclosure Controls and Procedures and Internal Control over Financial Reporting

The implementation of the Canadian Securities Administrators National Instrument 52-109 requires a continuous improvement process, for which the Company needs to formalize existing processes and control measures. Disclosure controls and procedures and Internal Control over Financial Reporting refer to controls and other procedures designed to ensure that information required to be disclosed in the reports the Company files or submits under the Toronto Stock Exchange ("TSX") is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the TSX and that such information is accumulated and communicated to the Company's management, including the chief executive officer and chief financial officer, as appropriate, to allow timely decisions regarding the required disclosure. In designing and evaluating the Company's controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management is required to apply its judgment in evaluating and implementing possible controls and procedures.

Management conducted its evaluation of the Company's controls and procedures and internal control over financial reporting under the supervision of the chief executive officer and the chief financial officer. Based on that evaluation, management concluded that the Company's controls and procedures were not effective as of June 30, 2018 and identified material weaknesses. A material weakness is a deficiency, or a combination of deficiencies, in

internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Company's annual or interim financial statements will not be prevented or detected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those responsible for oversight of the Company's financial reporting.
The following material weaknesses were identified in the design and operation of its internal controls:

- **(i)** Lack of integration of the Company's information technology systems and lack of access restrictions; and
- **(ii)** Lack of segregation of duties within accounting functions and systems
- **(iii)** Limited capabilities of Company's accounting software and consolidation process that involves highly manual processes
- **(iv)** Difficulty to retain sufficient internal accounting personnel to prepare and oversee financial statements reporting in accordance with IFRS;

Due to the Company's size and significant growth, segregation of all conflicting duties may not always be possible and may not be economically feasible and management has not been able to take steps to improve and formalize the Company's internal controls over financial reporting during the six-month period ended June 30, 2018.

To remediate the material weaknesses identified in internal control over financial reporting, during the three-month period ended June 30, 2018, the Company hired additional personnel with sufficient knowledge and experience in IFRS, such as a permanent chief financial officer, and hired a qualified external consultant to increase available resources in consolidation and financial statements reporting processes.

The management team will continue to monitor and evaluate the effectiveness of internal controls and procedures and internal controls over financial reporting on an ongoing basis, and is committed to taking further action and implementing additional enhancements and improvements by the end of the year. As necessary and as funds and other resources permit, management will focus on improving its accounting system to a more robust software that will enable management to improve its financial statements reporting oversight and consolidation process.

Additional Information

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