

# LXR<sup>AND</sup> CO

LXRandCo, Inc.

Amended and Restated

Consolidated Financial statements

December 31, 2017 and 2016

# Independent auditors' report

To the Shareholders of  
**LXRandCo, Inc.**

We have audited the accompanying amended and restated consolidated financial statements of **LXRandCo, Inc.**, which comprise the amended and restated consolidated statements of financial position as at December 31, 2017 and 2016, and the amended and restated consolidated statements of loss and comprehensive loss, changes in shareholders' equity (deficiency) and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

## **Management's responsibility for the amended and restated consolidated financial statements**

Management is responsible for the preparation and fair presentation of these amended and restated consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of amended and restated consolidated financial statements that are free from material misstatement, whether due to fraud or error.

## **Auditors' responsibility**

Our responsibility is to express an opinion on these amended and restated consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the amended and restated consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the amended and restated consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the amended and restated consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the amended and restated consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the amended and restated consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

## **Emphasis of matter**

Without qualifying our opinion, we draw attention to Note 1c) in the amended and restated consolidated financial statements, which indicates that the Company incurred a net loss of \$52,389,516 and had negative operating cash flows of \$17,257,497 for the year ended December 31, 2017. These conditions, along with subsequent other matters that impacted negatively operating cash flow as set forth in Note 1c), indicate the existence of a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern.



**Opinion**

In our opinion, the amended and restated consolidated financial statements present fairly, in all material respects, the financial position of **LXRandCo, Inc.** as at December 31, 2017 and 2016, and its financial performance and its cash flows for the years then ended, in accordance with International Financial Reporting Standards.

**Restatement**

Without qualifying our opinion, we draw attention to Note 1b) of the amended and restated consolidated financial statements, which explains that the amended and restated consolidated financial statements for the years ended December 31, 2017 and 2016 have been restated from those we originally reported on March 20, 2018.

*Ernst & Young LLP*<sup>1</sup>

Montréal, Canada  
November 13, 2018

<sup>1</sup> CPA auditor, CA, public accountancy permit no. A129439



LXRandCo, Inc.

Amended and Restated  
Consolidated statements of financial position

(in Canadian dollars)

(see note 1c) - Going concern uncertainty)

As at

	December 31, 2017	December 31, 2016
	\$	\$
	(Restated - Note 1b)	(Restated - Note 1b)
<b>Assets</b> (notes 9 and 11)		
<b>Current</b>		
Cash	4,015,025	938,966
Accounts receivable (notes 5 and 19)	5,212,344	2,131,033
Sales tax receivable	448,439	331,180
Income tax receivable	—	31,924
Inventory	14,750,750	6,871,597
Prepaid expenses and deposits	367,079	340,520
<b>Total current assets</b>	<b>24,793,637</b>	<b>10,645,220</b>
Property and equipment, net (note 6)	3,044,726	1,000,913
Intangible assets, net (note 7)	661,808	256,917
Other assets	112,682	112,682
Goodwill (note 8)	3,683,987	—
	<b>32,296,840</b>	<b>12,015,732</b>
<b>Liabilities and shareholders' equity (deficiency)</b>		
<b>Current</b>		
Credit facility and line of credit (note 9)	8,189,476	3,399,362
Accounts payable and accrued liabilities (note 10)	6,241,675	4,017,524
Income tax payable	497,811	—
Deferred revenue	149,284	—
Current portion of long-term debt (note 11)	188,810	2,841,026
Preferred shares	—	300,000
<b>Total current liabilities</b>	<b>15,267,056</b>	<b>10,557,912</b>
Long-term debt (note 11)	22,929	187,727
Convertible redeemable preferred shares (note 12)	—	23,108,395
Other liabilities (note 13)	159,097	—
Deferred income taxes (note 14)	216,851	178,243
<b>Total liabilities</b>	<b>15,665,933</b>	<b>34,032,277</b>
<b>Shareholders' equity (deficiency)</b>		
Share capital (note 13)	77,200,920	100
Warrants (note 13)	12,940,438	—
Deficit	(74,233,337)	(21,843,821)
Additional paid-in capital	1,236,291	—
Accumulated other comprehensive loss	(513,405)	(172,824)
<b>Total shareholders' equity (deficiency)</b>	<b>16,630,907</b>	<b>(22,016,545)</b>
	<b>32,296,840</b>	<b>12,015,732</b>

Commitments and contingencies (note 23)

Subsequent events (note 25)

See accompanying notes

On behalf of the Board:

Director

Director

LXRandCo, Inc.

**Amended and Restated**  
**Consolidated statements of loss and comprehensive loss**

(in Canadian dollars)

(see note 1c) - Going concern uncertainty)

Years ended December 31

	2017	2016
	\$	\$
	(Restated - Note 1b)	(Restated - Note 1b)
<b>Net revenue</b> <i>(note 16)</i>	37,069,137	21,890,810
Cost of sales	27,863,079	14,965,438
<b>Gross profit</b>	9,206,058	6,925,372
Selling, general and administrative expenses <i>(note 15)</i>	15,777,252	6,127,350
Amortization and depreciation expenses	474,777	224,329
<b>Results from operating activities</b>	(7,045,971)	573,693
Finance costs <i>(note 22)</i>	1,010,496	1,473,986
Debt extinguishment costs <i>(notes 9 and 11)</i>	612,939	—
Foreign exchange gain	(104,652)	(193,639)
Share of loss in an associate <i>(note 8)</i>	—	499,007
Non-recurring gain on acquisition of an associate <i>(note 8)</i>	(1,465,090)	—
Non-recurring gain on loss of control of a subsidiary	—	(363,948)
Excess of fair value over net assets acquired <i>(note 1)</i>	46,194,600	—
Non-recurring acquisition costs <i>(note 1)</i>	819,141	—
Gain on expiration of warrants <i>(note 12)</i>	(2,401,402)	—
Change in fair value of convertible redeemable preferred shares <i>(note 12)</i>	226,101	12,945,391
Convertible redeemable preferred shares dividends <i>(note 12)</i>	48,112	518,025
Change in fair value of warrants <i>(note 12)</i>	257,532	6,940,646
<b>Loss before income taxes</b>	(52,243,748)	(21,245,775)
Income tax expense (recovery) <i>(note 14)</i>		
Current	106,240	(210,119)
Deferred	39,528	163,754
	145,768	(46,365)
<b>Net loss</b>	(52,389,516)	(21,199,410)
<b>Other comprehensive income (loss)</b>		
Cumulative translation adjustment	(340,581)	11,540
<b>Comprehensive loss</b>	(52,730,097)	(21,187,870)
<b>Loss per share</b> <i>(note 17)</i>		
Basic and fully diluted	(6.16)	(4.69)
Weighted average number of shares outstanding – basic and fully diluted	8,501,412	4,520,781

See accompanying notes

LXRandCo, Inc.

**Amended and Restated**  
**Consolidated statements of changes in shareholders' equity (deficiency)**

(in Canadian dollars)

(see note 1c) - Going concern uncertainty)

Years ended December 31

	Share capital \$	Warrants \$	Deficit \$	Additional paid-in capital \$	Cumulative translation adjustment \$	Total shareholders' equity (deficiency) \$
<b>Balance as at January 1, 2016</b>	100	—	(644,411)		(184,364)	(828,675)
Net loss for the year 2016 (i)	—	—	(21,199,410)	—		(21,199,410)
Cumulative translation adjustment	—	—	—		11,540	11,540
<b>Balance as at December 31, 2016 (i)</b>	100	—	(21,843,821)	—	(172,824)	(22,016,545)
Net loss for the year 2017 (i)	—	—	<b>(52,389,516)</b>	—	—	<b>(52,389,516)</b>
Cumulative translation adjustment	—	—	—	—	<b>(340,581)</b>	<b>(340,581)</b>
Stock-based compensation expense (note 13) (i)	—	—	—	<b>1,236,291</b>	—	<b>1,236,291</b>
Conversion of convertible redeemable preferred shares (note 12) (i)	<b>24,890,501</b>	—	—	—	—	<b>24,890,501</b>
Class B common shares issued in Qualifying acquisition (notes 1 and 13) (i)	<b>52,310,319</b>	<b>12,940,438</b>	—	—	—	<b>65,250,757</b>
<b>Balance as at December 31, 2017</b>	<b>77,200,920</b>	<b>12,940,438</b>	<b>(74,233,337)</b>	<b>1,236,291</b>	<b>(513,405)</b>	<b>16,630,907</b>

(i) (Restated - Note 1b)

See accompanying notes

LXRandCo, Inc.

Amended and Restated  
Consolidated statements of cash flows

(in Canadian dollars)

(see note 1c) - Going concern uncertainty)

Years ended December 31

	2017	2016
	\$	\$
	(Restated - Note 1b)	(Restated - Note 1b)
<b>Operating activities</b>		
Net loss for the year	(52,389,516)	(21,199,410)
Non-cash items:		
Depreciation of property and equipment	278,261	114,113
Amortization of intangible assets	196,516	110,216
Amortization of deferred financing costs	671,597	372,429
Stock-based compensation expense	1,395,388	—
Deferred income taxes	39,528	163,754
Unrealized foreign exchange loss (gain) on non-monetary assets	88,540	(86,520)
Non-recurring gain on acquisition of an associate	(1,465,090)	—
Gain on expiration of warrants	(2,401,402)	—
Change in fair value of convertible redeemable preferred shares	226,101	12,945,391
Convertible redeemable preferred shares dividends	48,112	518,025
Change in fair value of warrants	257,532	6,940,646
Interest accretion expense on subordinated debt	18,279	473,072
Excess of fair value over net assets acquired	46,194,600	—
Non-recurring gain on loss of control of a subsidiary	—	(363,948)
Share of loss in an associate	—	499,007
	<u>(6,841,554)</u>	<u>486,775</u>
Net change in non-cash working capital balances related to operations	<u>(10,415,943)</u>	<u>(4,137,111)</u>
<b>Cash flows used in operating activities</b>	<u>(17,257,497)</u>	<u>(3,650,336)</u>
<b>Investing activities</b>		
Acquisitions of property and equipment	(1,452,771)	(637,175)
Acquisitions of intangible assets	(515,070)	(170,064)
Cash acquired from a step business combination	803,661	—
<b>Cash flows used in investing activities</b>	<u>(1,164,180)</u>	<u>(807,239)</u>
<b>Financing activities</b>		
Net increase (decrease) in credit facility	(3,873,743)	2,390,620
Net increase in line of credit	8,602,491	—
Cash acquired from acquisition	19,551,550	—
Proceeds from issuance of long-term debt	—	272,574
Repayment of long-term debt	(2,817,014)	(369,499)
Payment of financing costs	(610,231)	(541,715)
Proceeds from issuance of convertible redeemable preferred shares	1,000,000	2,704,332
Preferred shares redemption	(300,000)	—
<b>Cash flows provided by financing activities</b>	<u>21,553,053</u>	<u>4,456,312</u>
<b>Effect of exchange rate changes on cash</b>	<u>(55,317)</u>	<u>30,371</u>
<b>Net increase in cash during the year</b>	<u>3,076,059</u>	<u>29,108</u>
Cash, beginning of year	<u>938,966</u>	<u>909,858</u>
<b>Cash, end of year</b>	<u>4,015,025</u>	<u>938,966</u>
<b>Supplementary information (as reported in operating activities)</b>		
Income taxes received	—	(172,022)
Interest paid	<u>839,866</u>	<u>458,721</u>

See accompanying notes

LXRandCo, Inc.

## Notes to the amended and restated consolidated financial statements

(in Canadian dollars)

December 31, 2017 and 2016

### 1. Corporate information

LXRandCo, Inc. ("LXRandCo" or the "Company") 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 stores located in major department stores in Canada, the United States and Europe; wholesale operations primarily in the United States; and e-Commerce operations including its own website and through the websites of several of its retail partners. LXRandCo is incorporated and domiciled in Canada. The Company's legal registered address is at 130 Adelaide Street West, Toronto, Ontario, M5H 3P5 and its operating head office is located at 7399 Blvd. St-Laurent, Montréal, Québec, Canada, H2R 2W5. The Company also maintains an office in Tokyo, Japan.

As at December 31, 2017, LXRandCo's retail network consisted of 133 stores located as follows: 96 in the United States, 14 in Germany, 4 in Belgium, 5 in the Netherlands, 5 in the United Kingdom and 9 in Canada.

Retail sales are traditionally higher in the fourth quarter due to the holiday season.

On April 17, 2017, Gibraltar Growth Corporation ("Gibraltar Growth") filed a non-offering long form preliminary prospectus in respect of the acquisition of LXR Produits de Luxe International Inc. (the "LXR Acquisition"), and on May 12, 2017, Gibraltar Growth obtained its receipt from securities regulators for the public filing of its non-offering long form final prospectus in respect of the LXR Acquisition.

#### a) LXR Acquisition

On June 9, 2017, Gibraltar Growth, the predecessor of the Company, completed the acquisition of LXR Produits de Luxe International Inc. ("LXR International") and closed a private placement (the "Private Placement") of Class B shares ("Class B Share") for gross proceeds of \$25 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 (the "Qualifying Acquisition"). In connection with the closing of the Qualifying Acquisition, Gibraltar Growth was renamed to LXRandCo, Inc.

## LXRandCo, Inc.

### Notes to the amended and restated consolidated financial statements

(in Canadian dollars)

December 31, 2017 and 2016

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*" ("IFRS 3"), and it is accounted for as an equity-settled, 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 consideration 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 consideration 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 Qualifying Acquisition are presented as the historical financial statements of LXRandCo prior to the date of the completion of the Qualifying Acquisition. All share capital amounts have been restated using the exchange ratio established in the Qualifying acquisition (see note 13).

Details of the LXR Acquisition are summarized as follows:

	<b>Restated – See note 1b)</b>
	\$
<b>Assets acquired</b>	
Cash	19,551,550
Accounts receivable and other receivable	460,486
	<u>20,012,036</u>
<b>Liabilities assumed</b>	
Accounts payable and income taxes payable	955,879
Net assets acquired	<u>19,056,157</u>
Total consideration deemed to have been issued by LXR International ( <i>note 13</i> )	<u>65,250,757</u>
<b>Excess of LXR fair value over net assets acquired</b>	<u>46,194,600</u>

During the year ended on December 31, 2017, the Company incurred legal and other costs of \$819,141 in connection with the LXR Acquisition that were recorded in net loss.

The amended and restated consolidated financial statements of the Company for the years ended December 31, 2017 and 2016 were approved by the Company's Board of Directors on November 13, 2018.

**Notes to the amended and restated consolidated financial statements**  
(in Canadian dollars)

December 31, 2017 and 2016

**b) Description of matters and restatement adjustments**

Following the filing on March 21, 2018 of the audited consolidated financial statements as at and for the years ended December 31, 2017 and 2016, management and the Company's external auditors reconsidered the accounting treatment of the equity consideration resulting from the LXR Acquisition. Contemporaneously with the reconsideration of the fair value of the equity consideration resulting from the LXR Acquisition, management identified an inconsistency in the accounting of the fair value of convertible preferred shares of LXR International issued and outstanding prior to the LXR Acquisition. The reconsideration of the fair value of the convertible preferred shares of LXR International also impacted the accounting for the reacquisition of control of an associate (Groupe Global LXR Inc.) as well as the accounting for the issuance of stock-based compensation since the fair value used in these transactions were derived from the determination of the fair value of the convertible preferred shares of LXR International. In addition, as a result of other work completed by management on its inventory resulting from a material weakness identified after the previous consolidated financial statements were issued, management concluded that there were misstatements in the December 31, 2017 inventory balance that required correction.

The restatement of previously issued consolidated financial statements increased the net loss and comprehensive loss for the year ended December 31, 2017 by \$34.4 million and decreased the net loss and comprehensive loss for the year ended December 31, 2016 by \$7.1 million, respectively. The individual restatement matters that underlie the restatement adjustments are described below and are reflected and quantified, as applicable in the footnotes to the below tables.

**Measurement**

[a] LXR Acquisition (note 1a) – The Company initially determined the fair value of the total consideration deemed to have been paid to acquire the net assets of Gibraltar Growth by considering exclusively the fair value of the shares deemed to have been issued by LXR International. Such value amounted to \$33,419,715. Therefore, considering the fair value on the net assets acquired amounting to \$19,056,157, an Excess of fair value over net assets acquired amounting to \$14,363,558 was reflected as an expense in the consolidated statement of loss. After further reconsideration, management determined that the fair value of the shares deemed to have been issued by LXR should be increased by \$11,914,226. In addition, although the transaction is accounted for under IFRS 2, by analogy to IFRS 3, the equity instruments outstanding and issued by Gibraltar Growth as of the acquisition date, namely warrants and forfeitable shares, became new outstanding equity instruments of LXR International upon the LXR Acquisition and were required to be recorded at fair value at that date, and included in the fair value of the total consideration deemed to have been paid to acquire the net assets of Gibraltar Growth. Management determined that the fair value of such equity instruments as of June 9, 2017 was \$19,916,816. Therefore, the fair value of the total consideration deemed to have been paid to acquire the net assets of Gibraltar Growth should have been \$31,831,042 higher, for a total of \$65,250,757. The Company also corrected its LXR Acquisition purchase price equation, with no impact on net assets acquired, by grossing up cash and accounts payable by \$546,561. Therefore, as at December 31, 2017, share capital was increased by \$18,890,604, warrants were increased by \$12,940,438 and net loss were increased by \$31,831,042.

## Notes to the amended and restated consolidated financial statements

(in Canadian dollars)

December 31, 2017 and 2016

- [b] Convertible redeemable preferred shares (note 12) – The Company designated its convertible redeemable shares, as well as the related warrants, as a financial liability at fair value through profit or loss. As such, this liability is re-measured at each reporting date at its fair value. Management determined that the fair value of such financial liability was overstated as at December 31, 2016 by \$7,117,608, with a corresponding overstatement of the charge, for the year ended December 31, 2016, related to the change in fair value of the convertible redeemable preferred shares amounting to \$4,332,537, the change in fair value of the related warrants amounting to \$2,641,654, as well as the charge related to the dividends issued in convertible redeemable preferred shares amounting to \$143,417. At the end of January 2017, most of the warrants expired without being exercised, and the related financial liability was derecognized with a gain in profit or loss. However, given the reduction in value (mainly explained by the adjustment as of December 31, 2016), the gain was adjusted downward by \$794,057. These convertible redeemable preferred shares continued to be re-measured at fair value up until their conversion into common shares of LXR on June 9, 2017, but consistent with the adjustment discussed in a) above, management modified the fair value of such convertible redeemable preferred shares downward, therefore affecting the value reallocated to share capital upon the conversion. The total correction as at December 31, 2017 is a reduction of share capital of \$5,853,114 and an increase of opening retained earnings as of January 1, 2017 amounting to \$7,117,608, and, for the year ended December 31, 2017, a reduction of the gain on expiration of warrants of \$794,057, the recording of a charge pertaining to the change in fair value of the convertible redeemable preferred shares amounting to \$226,101, the recording of a charge pertaining to the change in fair value of the related warrants amounting to \$257,532, as well as a reduction of the charge related to the dividends issued in convertible redeemable preferred shares amounting to \$13,196.
- [c] Stock-based compensation (note 13) – On February 16, 2017, 62,334 options to purchase common shares of LXR were issued. The fair value of the common shares of LXR at the grant date were deemed to be \$56.82 per share when used as an assumption in the Black-Scholes option pricing model. However, it was subsequently determined that such fair value was in fact \$44.59 per share, and the fair value of the option was decreased from \$49 to \$38 per option. Accordingly, the Company revised its stock-based compensation expense downward by \$384,877 for the year ended December 31, 2017, with a corresponding decrease in additional paid-in capital.

**Notes to the amended and restated consolidated financial statements**  
(in Canadian dollars)

December 31, 2017 and 2016

- [d] Groupe Global LXR reacquisition (note 8) – During the year ended December 31, 2017, the Company re-acquired control of Groupe Global LXR Inc. (“Global”) by repurchasing the interest in Global that it did not own through the issuance of 59,558 convertible redeemable preferred shares of the Company. In such circumstances, IFRS requires that the equity interest owned immediately before obtaining control be re-measured at fair value with any gain or loss recognized in net loss. This gain amounted to \$2,070,422 and was recorded in the consolidated statement of loss as a Non-recurring gain on acquisition of an associate. LXR subsequently determined that the gain was overstated and should have been reduced by \$605,332, to \$1,465,090. In addition, consistent with the change in the fair value calculation methodology, the Company determined that the fair value of each convertible redeemable preferred shares as of the acquisition date was to be reduced from \$56.82 to \$44.50, and consequently, the purchase price consideration for Global is reduced by \$733,755. The total impact of this correction is a reduction of share capital of \$733,755, a decrease of the Non-recurring gain on acquisition of an associate of \$605,332, for a net decrease of goodwill of \$1,339,087.
- [e] Inventory – Management identified a control deficiency in the Company's inventory count procedures performed as at December 31, 2017. The additional procedures performed by management to mitigate such control deficiency identified several inventory items that did not exist as at December 31, 2017. Therefore, management recorded a reduction of inventory amounting to \$1,121,151.

**Reclassification and other**

- [f] The Company corrected its cash flows related to operating and investing activities, to reflect the fact that a portion of \$976,190 of the acquisitions of property and equipment for the year ended December 31, 2017 were not paid as at December 31, 2017.
- [g] The Company corrected its cash flows related to investing and financing activities by \$19,551,550 to present the cash acquired as part of the LXR Acquisition as a financing activity as opposed to an investing activity.
- [h] The Company reclassified certain accounts receivable and accounts payable that had initially been inappropriately offset totaling \$412,000.

## Notes to the amended and restated consolidated financial statements

(in Canadian dollars)

December 31, 2017 and 2016

- [i] The line of credit of the Company (note 9) includes financial and non-financial covenants. One of these covenants indicate that if a going concern note is to be included in any audited financial statements of the Company, this would constitute a breach as of the date of the statement of financial position for which a going concern note is required. Given these amended and restated financial statements, as approved by management on November 13, 2018, now include going concern disclosure (note 1c), the line of credit is presented as a current liability on the consolidated statement of financial position as at December 31, 2017.
- [j] The adjustments referred above did not give rise to any current or deferred income tax adjustments since most of the adjustments have increased the Company's loss, for which a full valuation allowance is recorded, or are non-deductible tax expenses by their nature.

Therefore, the Company has restated its previously reported consolidated financial statements as at and for the years ended December 31, 2017 and 2016, and all related disclosures. The cumulative impact of these corrections is as follows:

### Restatement schedule for December 31, 2017

Consolidated statement of financial position	As reported \$	Adjustments \$	Reference	Restated \$
<b>Assets</b>				
Accounts receivable	4,968,344	244,000	h	5,212,344
Sales tax receivable	280,439	168,000	h	448,439
Inventory	15,871,901	(1,121,151)	e	14,750,750
<b>Total current assets</b>	<b>25,502,788</b>	<b>(709,151)</b>		<b>24,793,637</b>
Goodwill	5,023,074	(1,339,087)	d	3,683,987
<b>Total assets</b>	<b>34,345,078</b>	<b>(2,048,238)</b>		<b>32,296,840</b>
<b>Liabilities and shareholders' equity</b>				
Credit facility and line of credit	—	8,189,476	i	8,189,476
Accounts payable and accrued liabilities	5,829,675	412,000	h	6,241,675
<b>Total current liabilities</b>	<b>6,665,580</b>	<b>8,601,476</b>		<b>15,267,056</b>
Credit facility and line of credit	8,189,476	(8,189,476)	i	—
<b>Total liabilities</b>	<b>15,253,933</b>	<b>412,000</b>	h	<b>15,665,933</b>
<b>Shareholders' equity</b>				
Share capital	64,897,185	12,303,735	a, b, d	77,200,920
Warrants	—	12,940,438	a	12,940,438
Deficit	(46,913,803)	(27,319,534)	a – e	(74,233,337)
Additional paid-in capital	1,621,168	(384,877)	c	1,236,291
<b>Total shareholders' equity</b>	<b>19,091,145</b>	<b>(2,460,238)</b>		<b>16,630,907</b>
	<b>34,345,078</b>	<b>(2,048,238)</b>		<b>32,296,840</b>

LXRandCo, Inc.

Notes to the amended and restated consolidated financial statements

(in Canadian dollars)

December 31, 2017 and 2016

	As reported \$	Adjustments \$	Reference	Restated \$
<b>Consolidated statement of loss and comprehensive loss</b>				
Cost of sales	26,741,928	1,121,151	e	27,863,079
Gross profit	10,327,209	(1,121,151)	e	9,206,058
Selling, general and administrative expenses	16,162,129	(384,877)	c	15,777,252
<b>Results from operating activities</b>	<b>(6,309,697)</b>	<b>(736,274)</b>	<b>c, e</b>	<b>(7,045,971)</b>
Non-recurring gain on acquisition of an associate	(2,070,422)	605,332	d	(1,465,090)
Excess of fair value over net assets acquired	14,363,558	31,831,042	a	46,194,600
Gain on expiration of warrants	(3,195,459)	794,057	b	(2,401,402)
Change in fair value of convertible redeemable preferred shares	—	226,101	b	226,101
Convertible redeemable preferred shares dividends	61,308	(13,196)	b	48,112
Change in fair value of warrants	—	257,532	b	257,532
<b>Loss before income taxes</b>	<b>(17,806,606)</b>	<b>(34,437,142)</b>	<b>a-e</b>	<b>(52,243,748)</b>
<b>Net loss</b>	<b>(17,952,374)</b>	<b>(34,437,142)</b>	<b>a-e</b>	<b>(52,389,516)</b>
<b>Comprehensive loss</b>	<b>(18,292,955)</b>	<b>(34,437,142)</b>	<b>a-e</b>	<b>(52,730,097)</b>
<b>Loss per share</b>				
Basic and fully diluted	(1.97)	(4.05)		(6.20)
Weighted average number of shares outstanding – basic and fully diluted	9,293,676	(792,264)		8,501,412

LXRandCo, Inc.

Notes to the amended and restated consolidated financial statements

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Consolidated statement of cash flows	As reported \$	Adjustments \$	Reference	Restated \$
<b>Operating activities</b>				
Net loss for the year	(17,952,374)	(34,437,142)	a - e	(52,389,516)
Stock-based compensation	1,780,265	(384,877)	c	1,395,388
Non-recurring gain on acquisition of an associate	(2,070,422)	605,332	d	(1,465,090)
Gain on expiration of warrants	(3,195,459)	794,057	b	(2,401,402)
Change in fair value of convertible redeemable preferred shares	—	226,101	b	226,101
Convertible redeemable preferred shares dividends	61,308	(13,196)	b	48,112
Change in fair value of warrants	—	257,532	b	257,532
Excess of fair value over net assets acquired	14,363,558	31,831,042	a	46,194,600
Net change in non-cash working capital balances related to operations	(10,014,343)	(401,600)	a, e, g	(10,415,943)
<b>Cash flows used in operating activities</b>	<b>(15,734,746)</b>	<b>(1,522,751)</b>		<b>(17,257,497)</b>
<b>Investing activities</b>				
Acquisitions of property and equipment	(2,428,961)	976,190	f	(1,452,771)
Cash acquired from acquisition	19,004,989	(19,004,989)	g	—
<b>Cash flows provided by (used in) investing activities</b>	<b>16,864,619</b>	<b>(18,028,799)</b>		<b>(1,164,180)</b>
<b>Financing activities</b>				
Cash proceeds from acquisition	—	19,551,550	a, g	19,551,550
<b>Cash flows provided by financing activities</b>	<b>2,001,503</b>	<b>19,551,550</b>		<b>21,553,053</b>
<b>Cash end of year</b>	<b>4,015,025</b>	<b>—</b>		<b>4,015,025</b>

LXRandCo, Inc.

**Notes to the amended and restated consolidated financial statements**  
(in Canadian dollars)

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**Restatement schedule for December 31, 2016**

Consolidated statement of financial position	As reported \$	Adjustments \$	Reference	Restated \$
<b>Non-current liabilities</b>				
Convertible redeemable preferred shares	30,226,003	(7,117,608)	b	23,108,395
<b>Total liabilities</b>	41,149,885	(7,117,608)	b	34,032,277
<b>Shareholders' deficiency</b>				
Deficit	(28,961,429)	7,117,608	b	(21,843,821)
<b>Total shareholders' deficiency</b>	(29,134,153)	7,117,608	b	(22,016,545)
	12,015,732	—		12,015,732
	As reported \$	Adjustments \$	Reference	Restated \$
<b>Consolidated statement of loss and comprehensive loss</b>				
Change in fair value of convertible redeemable preferred shares	17,277,928	(4,332,537)	b	12,945,391
Convertible redeemable preferred shares dividends	661,442	(143,417)	b	518,025
Change in fair value of warrants	9,582,300	(2,641,654)	b	6,940,646
<b>Loss before income taxes</b>	(28,363,383)	7,117,608	b	(21,245,775)
<b>Net loss</b>	(28,317,018)	7,117,608	b	(21,199,410)
<b>Comprehensive loss</b>	(28,305,478)	7,117,608	b	(21,187,870)
<b>Loss per share</b>				
Basic and fully diluted	(6.20)	1.57		(4.69)
Weighted average number of shares outstanding – basic and fully diluted	4,584,080	(63,299)		4,520,781

LXRandCo, Inc.

**Notes to the amended and restated consolidated financial statements**  
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<b>Consolidated statement of cash flows</b>	<b>As reported</b>	<b>Adjustments</b>	<b>Reference</b>	<b>Restated</b>
	\$	\$		\$
<b>Operating activities</b>				
Net loss for the year	(28,317,018)	7,117,608	b	(21,199,410)
Change in fair value of convertible redeemable preferred shares	17,277,928	(4,332,537)	b	12,945,391
Convertible redeemable preferred shares dividends	661,442	(143,417)	b	518,025
Change in fair value of warrants	9,582,300	(2,641,654)	b	6,940,646
<b>Cash flows used in operating activities</b>	<b>(3,650,336)</b>	—		<b>(3,650,336)</b>

**c) Going concern**

The accompanying amended and restated consolidated financial statements have been prepared by management in accordance with IFRS on a going concern basis, which presumes the Company will continue its operations for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the ordinary course of business. During the year ended December 31, 2017, the Company incurred a net loss of \$52,389,516 and had negative operating cash flows of \$17,257,497. In addition, the Company's revolving credit facility is subject to a maximum draw based on a borrowing base calculated as a percentage of eligible accounts receivable and eligible inventory. Subsequent to year end, the Company was fully using the available financing credit facility and the Company's committed cash obligations and expected level of expenses for the next few months exceed its committed sources of funds available as of November 13, 2018, after taking into consideration the issuance of shares subsequent to year-end. In relation to the above, the Company recognized a material non-financial asset impairment charge in the second quarter of 2018.

The use of the going concern assumption may not be appropriate. Therefore, as at December 31, 2017, there is a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern within one year after the date that the amended and restated consolidated financial statements are issued without obtaining additional financial resources and realizing successfully its updated strategic plan.

## LXRandCo, Inc.

### Notes to the amended and restated consolidated financial statements

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To date, the Company has financed its cash requirements primarily through share issuances and its revolving credit facility. The Company's activities involve a high degree of risk and uncertainty, and the future profitability of the Company is dependent upon a number of factors, including the realization of its updated strategic plan and obtaining additional financing support. It will be necessary for the Company to raise additional funds.

These amended and restated consolidated 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. Such adjustments could be material.

#### 2. Summary of significant accounting policies

The amended and restated consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The amended and restated consolidated financial statements have been prepared on a historical cost basis, except for convertible redeemable preferred shares.

#### Basis of consolidation

The amended and restated consolidated financial statements include the accounts of the Company, and the following wholly owned subsidiaries:

Name	Ownership
LXR Produits de Luxe International Inc. <i>(note 1)</i>	100%
LXR Canada Inc.	100%
LXR Luxe, Inc.	100%
Groupe Global LXR Inc. and its wholly owned subsidiary LXR & Co Inc. <i>(note 8)</i>	100%
LXR&Co Germany GmbH	100%
LXR&Co UK Limited	100%
LXRandCo Netherlands B.V.	100%

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. All intercompany transactions, balances and unrealized gains or losses have been eliminated upon consolidation. The Company has no interests in special purpose entities.

LXRandCo, Inc.

## Notes to the amended and restated consolidated financial statements (in Canadian dollars)

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Control is achieved when the Company is exposed, or has rights, to variable returns from its involvement with an investee and has the ability to affect those returns through its power over the investee. Specifically, the Company controls an investee if, and only if, the Company has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect its returns.

The Company assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary.

Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the amended and restated consolidated financial statements from the date the Company gains control until the date the Company ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income ("OCI") are attributed to the equity holders of the parent of the Company and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Company loses control over a subsidiary, it:

- Derecognizes the assets and liabilities of the subsidiary
- Derecognizes the cumulative translation differences, recorded in equity
- Recognizes the fair value of any consideration received
- Recognizes the fair value of any investment retained
- Recognizes any surplus or deficit through profit or loss
- Reclassifies the parent's share of the components previously recognized in OCI through profit or loss or retained earnings (deficit), as appropriate, as would be required if the Company had directly disposed of the related assets or liabilities

LXRandCo, Inc.

## Notes to the amended and restated consolidated financial statements (in Canadian dollars)

December 31, 2017 and 2016

### **Functional and presentation currency**

The amended and restated consolidated financial statements are presented in Canadian dollars, which is also the functional currency of the parent Company and the primary economic environment in which the Company operates.

For each entity, the Company determines the functional currency and items included in the financial statements of each entity are measured using that functional currency. The Company uses the direct method of consolidation, and on disposal of a foreign operation, the gain or loss that is reclassified to profit or loss reflects the amount that arises from using this method.

### **Foreign currency translation**

Revenue, expenses and non-monetary assets and liabilities denominated in foreign currencies are recorded at the rate of exchange prevailing at the transaction date. Monetary assets and liabilities denominated in foreign currencies are translated at exchange rates prevailing at the financial position date. Unrealized and realized translation gains and losses are reflected in net loss.

The assets and liabilities of the Company's foreign wholly owned subsidiaries are translated into Canadian dollars at the exchange rates in effect at the amended and restated consolidated statement of financial position date. Revenue and expenses are translated at average exchange rates for the period. Differences arising from the exchange rate changes are included in OCI in the cumulative translation adjustment account.

Foreign exchange gains or losses arising from a monetary item receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely to occur in the foreseeable future and which in substance is considered to form part of the net investment in the foreign operation, are recognized in OCI in the cumulative translation account and reclassified from equity to net loss on disposal of the net investment.

## LXRandCo, Inc.

### Notes to the amended and restated consolidated financial statements

(in Canadian dollars)

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#### Cash

Cash on the financial position date comprises cash at banks and on hand.

#### Inventory valuation

Inventory is measured at the lower of cost and net realizable value. Cost is determined using the historical unit cost of goods purchased. Costs include the cost of purchase and transportation costs that are directly incurred to bring the inventory to its present location and duty. Net realizable value is the estimated selling price of inventory in the ordinary course of business, less any estimated selling costs.

#### Property and equipment

Property and equipment are initially recorded at cost and are depreciated over their useful economic life. Cost includes expenditures that are directly attributable to the acquisition of the asset, including any costs directly related to bringing the asset to a working condition for its intended use. The residual values, useful lives and methods of depreciation of property and equipment are reviewed at each financial year-end and adjusted prospectively, if appropriate. All repair and maintenance costs are recognized in net loss as incurred.

Depreciation of an asset begins once it becomes available for use and is calculated using the straight-line method and the following durations:

Furniture and equipment	5 years
Computer equipment	3 years
Rolling stock	3 years

Leasehold improvements are depreciated on a straight-line basis over the lesser of the useful economic life and the initial term of the leases, plus one renewal option period, not to exceed three years.

Prior to January 1, 2017, the Company depreciated its furniture and equipment, computer equipment and rolling stock using the declining balance method at rates of 20%, 33% and 30%, respectively. The Company did not adjust retrospectively its December 31, 2016 property and equipment carrying amount as this change in depreciation did not result in a significant variance requiring restatement of prior period balances.

Any gain or loss arising on the disposal or derecognition of an asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in net loss when the asset is derecognized.

## Notes to the amended and restated consolidated financial statements

(in Canadian dollars)

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### Intangible assets

Intangible assets consist of computer software and website costs. The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets are initially recorded at cost. Intangible assets with finite lives are amortized over their useful economic lives. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life are considered to modify the amortization period and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in net loss.

Amortization of an asset begins once it becomes available for use and is calculated using the straight-line method and the following durations:

Software	2 to 3 years
Website	3 years

Prior to January 1, 2017, the Company amortized its software and website using the declining balance method at a rate of 33%. The Company did not adjust retrospectively its December 31, 2016 intangible assets' carrying amount as this change in amortization did not result in a significant variance requiring restatement of prior period balances.

Any gain or loss arising on the disposal or derecognition of an intangible asset (calculated as the difference between the net disposal proceeds and the carrying amount of the intangible asset) is included in net loss when the intangible asset is derecognized.

Expenditures incurred in connection with the ongoing development of the Company's website are capitalized as intangible assets when they meet the following criteria: the technical feasibility of completing the intangible asset has been demonstrated, the Company has the intention to use the asset, adequate technical, financial and other resources are available to complete the development, the ability to measure reliably the expenditure attributable to the intangible asset during its development exists and commercialization of the asset that will generate future economic benefits for the Company. When the aforementioned criteria are not met, expenditures incurred in connection with the Company's website are expensed as incurred.

### Leases

Leases are classified as either operating or finance, based on the substance of the transaction at inception of the lease. Classification is re-assessed if the terms of the lease are changed.

## Notes to the amended and restated consolidated financial statements

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Leases in which a significant portion of the risks and rewards of ownership are not assumed by the Company are classified as operating leases. The Company carries on its operations in premises under leases of varying terms and renewal options, which are accounted for as operating leases. Payments under an operating lease are recognized in net loss on a straight-line basis over the term of the lease. When a lease contains a predetermined fixed escalation of the minimum rent, the Company recognizes the related rent expense on a straight-line basis and, consequently, records the difference between the recognized rental expense and the amounts payable under the lease as a deferred lease credit. Contingent (sales-based) rentals are recognized as an expense when incurred through cost of sales.

### Store opening and store closing costs

Store opening costs and store closing costs are expensed as incurred.

### Investment in an associate

An associate is an entity over which the Company has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies. The Company's investment in an associate is accounted for using the equity method.

Under the equity method, the investment in an associate is initially recognized at cost. The carrying amount of the investment is adjusted to recognize changes in the Company's share of net assets of the associate since the acquisition date.

The amended and restated consolidated statements of loss and comprehensive loss reflect the Company's share of the results of operations of the associate. Any change in OCI of the associate is presented as part of the Company's OCI. Unrealized gains and losses resulting from transactions between the Company and the associate are eliminated to the extent of the interest in the associate or joint venture.

The Company recognizes its share of the loss of an associate until its share of loss equals its interest in the associate. Once the investment is reduced to zero, additional losses are provided for, and a liability is recognized, only to the extent that the Company has incurred legal or constructive obligations or made payments on behalf of the associate. If the associate subsequently reports profit, the Company resumes recognizing its share of the profit only after its share of the profit equals the share of loss not recognized.

In 2016, the Company's investment in an associate related to its investment in Global, which was reacquired on January 1, 2017 (*note 8*).

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### Impairment

#### *i. Impairment of financial assets*

The Company assesses, at each reporting date, whether there is objective evidence that have a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that has occurred since the initial recognition of the asset (an incurred "loss event") has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

#### *ii. Impairment of non-financial assets*

The Company assesses, at each reporting date, whether there is an indication that an item of property and equipment or an intangible asset may be impaired. If any such indication exists, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or a cash-generating unit's ("CGU") fair value less costs of disposal, and its value in use. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or corporate assets.

The Company bases any impairment calculations on detailed budgets and forecast calculations, which are prepared separately for each of the Company's CGUs to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of between three and five years, or the lease term if shorter.

The Company's management has defined each of the commercial premises in which it carries out its activities as a CGU, although where appropriate, these premises are aggregated at a district or regional level to form a CGU.

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An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased and if there has been a change in the assumptions used to determine an asset's recoverable amount. A reversal is limited to the extent that an asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, had no impairment loss been recognized. Such reversal is recognized in net loss.

Goodwill represents the excess of the cost of an acquisition over the fair value of the identifiable net assets acquired at the date of acquisition. Goodwill is carried at cost less accumulated impairment losses and is tested for impairment at least annually and when circumstances indicate that the carrying value may be impaired. For the purposes of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Company's CGUs that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

**Provisions**

Provisions are recognized when the Company has a present obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Company expects some or all of a provision to be reimbursed, the reimbursement is recognized as a separate asset, but only when the reimbursement is virtually certain. The expense relating to a provision is presented in the amended and restated consolidated statements of loss and comprehensive loss net of any reimbursement. All provisions are reviewed at each reporting date and adjusted to reflect the current best estimates.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, when appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

**Share capital**

*i. Common shares*

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares are recognized as a deduction from equity, net of any tax effects.

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*ii. Preferred shares*

Preferred shares are classified as a financial liability if they are redeemable on a specific date or at the option of the shareholders. Dividends thereon are recognized as interest expense in net loss as accrued.

*iii. Convertible redeemable preferred shares*

Convertible redeemable preferred shares previously issued by the Company also comprised convertible preferred shares that could be converted to common shares at the option of the holders.

The component parts of a compound financial instrument such as the convertible redeemable preferred shares previously issued by the Company are usually classified separately as financial liabilities and equity in accordance with the rights and obligations of that security. Usually, the conversion option that will be settled by the exchange of a fixed amount of cash for a fixed number of the Company's own equity instruments is classified as an equity instrument. Since the instrument did not previously meet the fixed-for-fixed criteria for bifurcation, the conversion option was classified as a separate other financial liability.

The Company previously designated the entire compound instrument as a financial liability at fair value through profit or loss.

Transaction costs that related to the issuance of the convertible redeemable preferred shares such as legal fees, that were directly attributable to the incurrence of financial liabilities were recorded as a reduction against the preferred share proceeds.

On June 9, 2017, in connection with the closing of the LXR Acquisition, the convertible redeemable preferred shares were converted into Class B common shares (*note 12*).

**Stock-based compensation**

*i. Employee share purchase plan*

The Company has a stock option plan for employees, non-employees and directors from which options to purchase common shares are issued. Options may not be granted with an exercise price of less than the fair value of the options at the grant date. The awards have no cash settlement alternatives. The vesting requirements are typically service-based and the options normally have a contractual life of 10 years.

## Notes to the amended and restated consolidated financial statements

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The fair value of stock-based compensation awards granted to employees is measured at the grant date using the Black-Scholes option pricing model. Measurement inputs include the share price on the measurement date, the exercise price of the option, the expected volatility (based on weighted average historical volatility adjusted for changes expected based on publicly available information), the weighted average expected life of the option (based on historical experience and general option holder behaviour), expected dividends, and the risk-free interest rate (based on government bonds).

The value of the compensation expense is recognized over the vesting period of the stock options as an expense included in selling, general and administrative expenses, with a corresponding increase to contributed surplus in equity. The amount recognized as an expense is adjusted to reflect the Company's best estimate of the number of awards that will ultimately vest. No expense is recognized for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Any consideration paid by plan participants on the exercise of stock options and the previously recognized compensation cost of the options exercised included in contributed surplus are credited to share capital.

### *ii. Non-employee share purchase plan*

When the Company exchanges options or shares for goods and services, the measurement basis is the fair value of the services or goods received, as this value is typically more reliably measurable than the equity instruments themselves. Should this not be the case, the estimated fair value of the equity instruments is used. The measurement date in both cases is generally the earlier of the date at which a commitment to earn the equity instruments by the counterparty is reached, the date the equity instruments are granted and the date at which the counterparty's performance is complete. The cost is recognized in the same manner and in the same period as if the Company had paid cash for the goods or the services.

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### *iii. Cash-settled transactions*

For cash-settled share-based compensation (deferred share unit plan), the expense is determined based on the fair value of the liability at the end of the reporting period until the award is settled. The value of the compensation is measured based on the closing price of the shares of the Company on the TSX adjusted to take into account the terms and conditions upon which the units were granted, and is based on the units that are expected to vest. The expense is recognized over the period in which the performance or service conditions are satisfied. At the end of each reporting period, the Company re-assesses its estimates of the number of awards that are expected to vest and recognizes the impact of the revisions through profit or loss.

### **Revenue recognition**

Revenue comprises the fair value of the consideration received or receivable for the sale of goods in the ordinary course of the Company's activities. Revenue is recorded net of discounts, rebates, estimated returns and sales taxes. These are generally recorded at the point of sale for retail and e-Commerce sales. There are no discounts or rebates in the wholesale channel. The Company recognizes revenue when the amount can be reliably measured, it is probable that future economic benefits will flow to the Company and when specific criteria have been met for each of the Company's activities as described below. The Company bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement. Revenue includes sales through the Company's network of retail stores, sales through the Company's e-Commerce channel, and sales through wholesale operations and hybrid stores.

#### *i. Retail Stores and e-Commerce sales*

Revenue from Retail Stores is recognized when the goods are delivered to the customer, which is generally at the point of sale. Revenue from e-Commerce sales is recognized upon receipt of the goods by the customer. The Company provides retail store customers with a minimal right to return within a specified period for store credit only while the Company provides e-Commerce customers a minimal right to return within a specified period for store credit or cash refund. Accumulated experience is used to estimate and provide for such returns.

#### *ii. Wholesale and Hybrid Store sales*

Revenue from wholesale operations and hybrid stores is recognized upon shipment of the merchandise. The Company does not generally grant right of returns to wholesale customers.

LXRandCo, Inc.

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### Income taxes

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in net loss except to the extent that they relate to items recognized directly in equity or in OCI.

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered or paid. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the financial position date. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

The Company uses the liability method of accounting for deferred income taxes, which requires the establishment of deferred income tax assets and liabilities for all temporary differences caused when the tax bases of assets and liabilities differ from their carrying amounts reported in the amended and restated consolidated financial statements. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the temporary differences when they reverse, based on tax rates that have been enacted or substantively enacted at the end of the reporting period. 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.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority and the Company intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Deferred income tax assets and liabilities are recognized on the amended and restated consolidated statements of financial position under non-current assets or liabilities irrespective of the expected dates of realization or settlement.

### Earnings (loss) per share

Basic earnings (loss) per share is calculated using the weighted average number of shares outstanding during the year.

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The diluted earnings (loss) per share are calculated by adjusting the weighted average number of shares outstanding to include additional shares issued from the assumed conversion of preferred shares and the exercise of stock options, if dilutive. For stock options, the number of additional shares is calculated by assuming that the proceeds from such exercises, as well as the amount of unrecognized stock-based compensation which is considered to be assumed proceeds, are used to purchase common shares at the average market price during the reporting period.

### Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Financial instruments are recognized depending on their classification, with changes in subsequent measurements being recognized in income or loss or in OCI.

The Company has made the following classifications:

- Cash and convertible redeemable preferred shares, including warrants, are classified as “fair value through profit or loss”, and measured at fair value. Changes in fair value are recorded in net loss.
- Accounts receivable are classified as “Loans and Receivables”. After their initial fair value measurement, they are measured at amortized cost using the effective interest rate method.
- Accounts payable and accrued liabilities, credit facility and long-term debt are classified as “Other Financial Liabilities”. After their initial fair value measurement, they are measured at amortized cost using the effective interest rate method.

Transaction costs related to financial instruments classified as financial liabilities at fair value through profit or loss are expensed as incurred. Transaction costs related to financial liabilities classified as Other Financial Liabilities are reflected in the carrying amount of the financial liability and are then amortized over the estimated useful life of the instrument using the effective interest rate method.

### Government grants

Government grants are recognized where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognized as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

Where the grant relates to an asset, it is recognized as income in equal amounts over the expected useful life of the related asset.

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### 3. Changes in accounting principles

#### Standards issued but not yet effective

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.

Disclosure initiative (amendment to IAS 7): In January 2016, the IASB issued amendments to IAS 7, "Statements of Cash Flows", which will require specific disclosures for movements in certain liabilities on the statement of cash flows. These amendments will be applicable for the annual period beginning on or after January 1, 2017, with earlier application permitted. The implementation of these amendments is not expected to have a significant impact on the Company.

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IFRS 2, "Share-based payment" ("IFRS 2") In June 2016, the IASB issued amendments to IFRS 2, clarifying how to account for certain types of share-based payment transactions. The amendments provide requirements on the accounting for: the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments; share-based payment transactions with a net settlement feature for withholding tax obligations; and a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. The amendments apply for annual periods beginning on or after January 1, 2018. As a practical simplification, the amendments can be applied prospectively. Retrospective, or early, application is permitted if information is available without the use of hindsight.

### 4. Significant accounting judgments, estimates and assumptions

The preparation of the amended and restated 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, revenue 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, revenue and expenses are discussed below. Information about significant estimates is discussed in the following section.

#### 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 Company recorded an inventory write off of \$1,121,151 (nil as at December 31, 2016). The provision for inventory obsolescence amounted to \$120,137 (nil as at December 31, 2016).

The net change of the provision for inventory obsolescence was charged to cost of sales in the amended and restated consolidated statements of loss and comprehensive loss.

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### *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.

### *iii. Estimation of fair value of equity instruments*

The fair value of the convertible redeemable preferred shares of LXR International and the fair value of the equity considerations issued in the reacquisition of an associate and in conjunction with the LXR Acquisition are based on numerous assumptions and estimates that may have a significant impact on the amount recognized as goodwill, non-recurring gain on acquisition of an associate convertible redeemable preferred shares' financial liability and the change in fair value of convertible redeemable preferred shares and warrants, as well as the amount of stock-based compensation expense.

## **Critical judgments in applying accounting policies**

### *i. 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.

LXRandCo, Inc.

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**5. Accounts receivable**

	Restated – See note 1b)	
	December 31, 2017	December 31, 2016
	\$	\$
Trade	5,148,967	1,683,209
Trade receivable from an associate (Groupe Global LXR Inc.)	—	397,575
Allowance for doubtful accounts	(21,868)	(10,890)
	<u>5,127,099</u>	<u>2,069,894</u>
Other trade receivable	85,245	61,139
	<u>5,212,344</u>	<u>2,131,033</u>

Trade receivables are non-interest bearing and are generally due on terms of up to 30 days.

As at December 31, 2017, trade receivables of an initial value of \$1,436,710 (2016 – \$76,440) were past due but not impaired.

**6. Property and equipment**

	Furniture and equipment	Computer equipment	Rolling stock	Leasehold improvements	Total
	\$	\$	\$	\$	\$
<b>Cost</b>					
Balance, December 31, 2016	910,873	113,937	54,653	256,830	1,336,293
Acquisitions	2,259,438	142,258	—	27,265	2,428,961
Disposals	(4,474)	—	—	—	(4,474)
Cumulative translation adjustment	(66,100)	(3,326)	—	(3,748)	(73,174)
<b>Balance, December 31, 2017</b>	<u>3,099,737</u>	<u>252,869</u>	<u>54,653</u>	<u>280,347</u>	<u>3,687,606</u>

LXRandCo, Inc.

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	Furniture and equipment \$	Computer equipment \$	Rolling stock \$	Leasehold Improvements \$	Total \$
<b>Accumulated depreciation</b>					
Balance, December 31, 2016	190,420	73,441	30,874	40,645	335,380
Depreciation	136,694	46,064	19,314	76,188	278,260
Cumulative translation adjustment	28,348	281	37	574	29,240
<b>Balance, December 31, 2017</b>	<b>355,462</b>	<b>119,786</b>	<b>50,225</b>	<b>117,407</b>	<b>642,880</b>

	Furniture and equipment \$	Computer equipment \$	Rolling stock \$	Leasehold Improvements \$	Total \$
<b>Net carrying value</b>					
Balance, December 31, 2016	720,453	40,496	23,779	216,185	1,000,913
<b>Balance, December 31, 2017</b>	<b>2,744,275</b>	<b>133,083</b>	<b>4,428</b>	<b>162,940</b>	<b>3,044,726</b>

7. Intangible assets

	Software \$	Website \$	Total \$
<b>Cost</b>			
Balance, December 31, 2016	17,700	351,928	369,628
Reacquisition of an associate	103,422	8,064	111,486
Acquisitions	515,070	—	515,070
Cumulative translation adjustment	—	(25,428)	(25,428)
<b>Balance, December 31, 2017</b>	<b>636,192</b>	<b>334,564</b>	<b>970,756</b>

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	Software \$	Website \$	Total \$
<b>Accumulated amortization</b>			
Balance, December 31, 2016	1,635	111,076	112,711
Amortization	<b>93,954</b>	<b>102,562</b>	<b>196,516</b>
Cumulative translation adjustment	—	<b>(279)</b>	<b>(279)</b>
<b>Balance, December 31, 2017</b>	<b>95,589</b>	<b>213,359</b>	<b>308,948</b>
	Software \$	Website \$	Total \$
<b>Net carrying value</b>			
Balance, December 31, 2016	16,065	240,852	256,917
<b>Balance, December 31, 2017</b>	<b>540,603</b>	<b>121,205</b>	<b>661,808</b>

The Company recorded \$34,518 (2016 – nil) of government assistance against website cost for eligible expenses claimed for investment tax credits.

**8. Business combination (Restated – See note 1b)**

During 2017, as part of a strategic decision to better integrate the Company's omni-channel strategy and improve the reporting of its entire operations, the Company reacquired control of an associate, Groupe Global LXR Inc., by repurchasing the interest of Global that it did not own for total consideration through the issuance of 59,558 convertible redeemable preferred shares of the Company. The convertible redeemable preferred shares fair value was estimated at \$44.50 on the transaction date, establishing the consideration's fair value at \$2,650,331. Global is the subsidiary of the Company that is responsible for the Company's Canadian and U.S. e-Commerce operations through its website, [www.lxrco.com](http://www.lxrco.com).

The excess of the purchase price over tangible assets, identifiable intangible assets acquired and liabilities assumed was recorded as goodwill. The purchase price of the business combination entered into has been allocated to assets acquired and liabilities assumed based on their estimated fair values at the acquisition date, using management's best estimates of the fair values using the data available at the acquisition date.

The Company recognized a gain resulting from a business acquisition of \$1,465,090 arising from the fair value of its existing ownership interest in Global.

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Details of the business combination, accounted for by using the acquisition method, are summarized as follows:

	\$ <u>(Restated)</u>
<b>Assets acquired</b>	
Cash	803,661
Accounts receivable and other receivable	30,228
Inventory	54,933
Prepaid expenses	2,907
Tangible and intangible assets	184,064
Goodwill	2,218,897
	<u>3,294,690</u>
<b>Liabilities assumed</b>	
Accounts payable and accrued liabilities	341,254
Loan payable to related parties	303,105
	<u>644,359</u>
Net assets acquired	<u>2,650,331</u>
<b>Purchase price consideration</b>	
Issuance of 59,558 convertible redeemable preferred shares	<u>2,650,331</u>

#### 9. Credit facility and line of credit (Restated – See note 1b)

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. The Company incurred \$142,480 of termination fees that were recorded as debt extinguishment costs. Unamortized deferred financing fees were expensed in 2017.

On June 14, 2017, the Company entered into a credit agreement with a Canadian chartered bank that 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.

## LXRandCo, Inc.

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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%, or (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, 2020 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 a reduction of the Line of Credit amount to \$413,015.

The Line of Credit can be used to enter into foreign exchange contracts not exceeding 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 not exceeding 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. The Line of Credit also requires the Company to meet certain non-financial covenants, which were not met as at November 13, 2018 as a result of the going concern uncertainty, and accordingly, the Line of Credit is presented as a current liability on the amended and restated consolidated statements of financial position.

#### 10. Accounts payable and accrued liabilities

	Restated – See note 1b)	
	December 31, 2017	December 31, 2016
	\$	\$
Accounts payable and accrued liabilities	6,240,511	3,941,708
Government remittances	1,164	75,816
	<b>6,241,675</b>	<b>4,017,524</b>

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11. Long-term debt

	December 31, 2017 \$	December 31, 2016 \$
Subordinated debt of \$1,500,000 from the Business Development Bank of Canada ("BDC") (i)	—	1,495,644
Bonus payment (i)	—	637,375
	—	2,133,019
Term loans from Investissement Québec ("IQ") (ii)	180,000	369,944
Term loans from BDC	—	106,508
Term capital expenditure loan (iii)	—	228,778
Other term loans	31,739	190,504
Total long-term debt	211,739	3,028,753
Current portion	188,810	2,841,026
	<b>22,929</b>	<b>187,727</b>

(i) Subordinated debt with 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 remit an additional compensation in the form of a bonus payment representing 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 remit monthly a royalty of 0.30% of consolidated annual sales.

The subordinated debt required that certain financial covenants be maintained on a consolidated basis, which were not all met for the year ended December 31, 2016. On April 12, 2017, the Company obtained a confirmation from BDC, waiving its rights, arising from the breach of the covenants as at December 31, 2016, to demand repayment for a period of more than one year from the financial position date. Through issuance of the waiver, the Company and BDC amended the subordinated agreement to fix the bonus payment to 1.2% of \$60,000,000, which was payable at the earlier of the maturity date or the closing of the LXR Acquisition (*note 1*). On June 9, 2017, concurrent with the closing of the LXR Acquisition, the Company repaid the outstanding balance of the subordinated debt, including the final bonus payment and royalty, for a total amount of \$2,383,106, of which an amount of \$188,763 was recorded as debt extinguishment costs.

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**(ii) Term loans with IQ**

The Company, through its wholly owned subsidiary LXR Canada Inc., has 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 (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. Accordingly, the Company presented this term loan as a current liability on the amended and restated consolidated statements 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 (2016 – \$11,194).

**(iii) Term capital expenditure loan**

On January 15, 2016, the Company entered into a credit agreement (*note 9*) that included a capital expenditure term loan facility in the amount of US\$350,000 for the purpose of purchasing eligible equipment.

On June 9, 2017, concurrent with the closing of the LXR Acquisition, the Company repaid the capital expenditure term loan outstanding.

LXRandCo, Inc.

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12. Convertible redeemable preferred shares (Restated)

Issued

Unlimited number of the following classes of shares:

	Number #	Amount \$
		<b>(Restated – See note 1b)</b>
<b>Convertible redeemable preferred shares of LXR International</b>		
Balance, January 1, 2017	351,667	15,649,724
Exercise of warrants	130,039	5,798,208
Issuance of convertible redeemable preferred shares	59,558	2,650,331
	<u>541,264</u>	<u>24,098,263</u>
<b>Dividends payable in convertible redeemable preferred shares</b>		
Balance, January 1, 2017	11,641	518,025
Dividends declared for the year	1,079	48,112
	<u>12,720</u>	<u>566,137</u>
<b>Warrants to purchase convertible redeemable preferred shares</b>		
Balance, January 1, 2017	195,100	6,940,646
Exercise of warrants	(130,039)	(4,539,244)
Expiration of warrants	(65,061)	(2,401,402)
	<u>—</u>	<u>—</u>
Total convertible redeemable preferred shares	553,984	24,664,400
Change in fair value	—	226,101
	<u>553,984</u>	<u>24,890,501</u>
Conversion into Class B common shares of LXR International	(553,984)	(24,890,501)
<b>Balance, December 31, 2017</b>	<u>—</u>	<u>—</u>

On June 10, 2016, the Company issued 351,667 convertible redeemable preferred shares, representing 26% of the Company's share capital, to a group of unrelated investors as part of the first closing of an equity financing, for total consideration of \$2,704,333. The financing was extended to January 31, 2017 to accommodate potential additional closings. The convertible redeemable preferred shares were convertible at the option of the holders into Class A common shares of LXR International at a rate of one Class A common share for one convertible redeemable preferred share and are mandatorily redeemable on June 17, 2019, at their initial share price of \$7.69 plus any unpaid annual cumulative dividends of 6%.

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The convertible redeemable preferred shares were designated as a financial liability at fair value through profit or loss. Accordingly, the Company recorded an increase in fair value of \$4,332,537 as at December 31, 2016 and \$226,101 for the year 2017 resulting from an increase in valuation. The fair value of the convertible redeemable preferred shares was determined by using the fair value from LXR Acquisition and was established at a value of \$44.93 per preferred share (\$44.50 as at December 31, 2016).

The Company granted warrants for the purchase of convertible redeemable preferred shares. The warrants had an expiration date of January 31, 2017 and entitled the holders to purchase up to 195,100 convertible redeemable preferred shares of the Company at a share price of \$7.69. As at December 31, 2016, consistent with the fair value valuation methodology applied to the convertible redeemable preferred shares, the Company recorded the fair value of the outstanding warrants at \$35.58 per warrant. On January 30, 2017, the Company issued 130,039 convertible redeemable preferred shares at \$7.69 per share for proceeds of \$1 million in connection with the exercise of these warrants. The Company's share price was unchanged as at January 31, 2017, and accordingly, no fair value adjustment was recorded in the period on the remaining unexercised warrants. Upon expiration of the remaining unexercised warrants on January 31, 2017, the Company recorded a gain from the reduction of the related liability of \$2,401,402.

The Company reacquired control of Global (*note 8*) by repurchasing the interest of Global that it did not own for total consideration of \$2,650,331 through the issuance of 59,558 convertible redeemable preferred shares.

On March 31, 2017, the Board of Directors approved a payment in kind of the unpaid cumulative dividends of 6% in the normal course and in accordance with the terms of the convertible redeemable preferred shares shareholders' agreement. Accordingly, the Company issued 1,079 convertible redeemable preferred shares (11,641 as at December 31, 2016) and, consistent with the fair value valuation methodology applied to that financial instrument, recorded an amount of \$566,137 as dividend payable on such convertible redeemable preferred shares (\$518,025 as at December 31, 2016).

On June 9, 2017, concurrent with the closing of the LXR Acquisition, the convertible redeemable preferred shares, including the declared dividends payable, were converted into 553,984 common shares of LXR International, which were then exchanged in favour of 2,504,008 Class B common shares of LXRandCo.

## LXRandCo, Inc.

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#### 13. Share capital (Restated)

##### Issued

An unlimited number of the following classes of shares with no par value:

Class B common shares, voting and fully participating

	Number #	Amount \$
		<b>(Restated – See note 1b)</b>
Balance, January 1, 2016 and January 1, 2017	4,520,781	100
Conversion of convertible redeemable preferred shares ( <i>note 12</i> )	2,504,441	24,890,501
Shares deemed issued on the acquisition of Gibraltar Growth Corporation ( <i>note 1</i> )	5,921,262	52,310,319
<b>Balance, December 31, 2017</b>	<b>12,946,484</b>	<b>77,200,920</b>

On June 9, 2017, concurrent with the closing of the LXR Acquisition, the convertible redeemable preferred shares having a net book value of \$24,890,501, including the declared dividends payable in convertible redeemable preferred shares, were converted into 553,984 common shares of LXR International, increasing the total of LXR International common shares to 1,553,984. The common shares of LXR International were ultimately exchanged in favour of 7,025,222 Class B common shares of LXRandCo. All share capital amounts have been restated using the exchange ratio established in the Qualifying Acquisition.

##### Forfeitable founders' shares

As at December 31, 2017, the Company had issued 1,357,656 Class B common shares, in two tranches of 678,828 and 678,828, which are subject to forfeiture on June 9, 2022, unless the closing price of share price of the Class B common shares exceeds \$13.00 and \$15.00, respectively (as adjusted for stock split or combinations, stock dividends, reorganizations, or recapitalizations) for any 20 trading days within a 30 day-trading-day period.

##### Warrants

As at December 31, 2017, 10,861,250 warrants to purchase common shares of the Company are outstanding. Each warrant became exercisable 30 days after the completion of the LXR Acquisition and is exercisable to purchase one Class B common share at an exercise price of \$11.50 per share. The warrants will expire on the fifth anniversary after the completion of the LXR Acquisition. Warrants fair value was established at \$12,940,438 at the LXR Acquisition date.

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#### Stock-based compensation

Under the Company's stock option plan, the Board of Directors (the "Board") is authorized, at its discretion, to issue stock options to its employees, directors, officers, consultants and other service providers.

LXR International granted on February 16, 2017, as part of a newly instituted employee stock option program, 62,334 options to purchase common shares of LXR International at \$7.69 per common share. The options vest at 25% on the first anniversary of the grant date and yearly thereafter (on each anniversary of such date), to the fourth anniversary of the grant date and shall remain exercisable up to February 16, 2027. On June 9, 2017, concurrent with the closing of the LXR Acquisition, the 62,334 options granted were exchanged in favour of 285,744 options to purchase Class B common shares of LXRandCo (the "Replacement Options"). The Replacement Options provide an optionee the ability to purchase Class B common shares of LXRandCo at a price of \$1.68 per share, and the terms and conditions of the Replacement Options have remained the same as the initial terms and conditions.

Since the option modifications reduce the total fair value of the Replacement Options related share-based payment arrangement, the Company continues to account for the cost of compensation services received as consideration for the equity instruments granted as if the replacement had not occurred.

The fair value of stock options granted is estimated at the date of grant using the Black-Scholes option pricing model and the following assumptions:

	December 31, 2017	December 31, 2016
Expected volatility	32% yearly	—
Risk-free interest rate	1.48%	—
Expected option life	6.25 years	—
Expected dividend yield	—	—

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The stock option activity and the weighted average exercise price are summarized as follows:

	December 31, 2017		December 31, 2016	
	Number #	Weighted average exercise price \$	Number #	Weighted average exercise price \$
Outstanding at beginning of year	—	—	—	—
Granted	285,744	1.68	—	—
Cancelled	(3,946)	1.68	—	—
Outstanding at end of year	281,798	1.68	—	—
Options exercisable at end of year	48,765	—	—	—

The weighted average remaining contractual term of options exercisable as at December 31, 2017 was 9.2 years.

The weighted average grant-date fair value related to the equity instruments granted during the year ended December 31, 2017 amounted to approximately \$38 per option, which represents the fair value of the equity options granted by LXR International. The stock-based compensation expense of \$1,236,291 for the year ended December 31, 2017 (2016 – nil), is recorded in the amended and restated consolidated statements of loss and comprehensive loss in selling, general and administrative expenses and credited to additional paid-in capital.

As at December 31, 2017, the total remaining unrecognized compensation expense related to non-vested stock options amounted to \$770,321, which will be recognized over the weighted average remaining requisite service period of 3.25 years.

Pursuant to the closing adjustment of the LXR Acquisition (*note 1*), 3,946 options were cancelled and terminated.

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### Deferred share unit plan

Deferred share units (“DSUs”) are awarded to eligible directors under a preliminary deferred share unit plan. Under this plan, each eligible director receives a portion of his or her compensation in the form of DSUs. The value of a granted DSU is calculated based on the 5-day variable weighted average share price of the Company leading up to the end of the quarter the closest to the DSU grant date. The plan has been approved by the Board of Directors in 2017 but is subject to the approval of the Toronto Stock Exchange.

During the year 2017, the Company granted to directors 30,304 DSUs and recognized a compensation expense of \$213,375 for its deferred share unit plan under stock-based compensation expense. As at December 31, 2017, the Company re-assessed the value of the vested and granted DSUs based on the closing price of the Class B common shares of the Company on the Toronto Stock Exchange and recorded a reduction in fair value of \$54,278 through stock-based compensation expense. The outstanding DSUs are presented as other liabilities in the amended and restated consolidated statements of financial position.

### 14. Income taxes

A reconciliation of the statutory income tax rate to the effective tax rate is as follows:

	December 31, 2017 \$	December 31, 2016 \$
	<b>(Restated)</b>	<b>(Restated)</b>
Income tax at statutory rate of 26.8% (19% in 2016)	<b>(14,001,324)</b>	(4,036,697)
Impact of foreign tax rate differences	<b>(409,346)</b>	(9,652)
Valuation allowance on deferred tax assets	<b>3,111,059</b>	(11,750)
Effect of change in future tax rate	<b>(499,946)</b>	—
Permanent differences	<b>11,702,823</b>	3,978,701
Accrual to return	<b>141,886</b>	(1,841)
Other	<b>100,616</b>	34,874
	<b>145,768</b>	(46,365)

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The tax effects of temporary differences and net operating losses that give rise to deferred income tax assets and liabilities are as follows:

	December 31, 2017 \$	December 31, 2016 \$
<b>Deferred income tax assets</b>		
Financing fees	81,130	20,405
Net-operating losses	139,790	—
Total deferred income tax assets	<u>220,920</u>	<u>20,405</u>
<b>Deferred income tax liabilities</b>		
Carrying values of property and equipment in excess of tax basis	172,213	684
Tax payable on investment tax credits	5,808	11,728
Non-deductible reserve and others	259,750	186,236
Total deferred income tax liabilities	<u>437,771</u>	<u>198,648</u>
Net deferred income tax liabilities	<u>(216,851)</u>	<u>(178,243)</u>

As at December 31, 2017, the Company's U.S. subsidiary has accumulated losses amounting to US\$4,338,046 that expire during the years 2032 to 2037. These tax losses have not been recorded in the amended and restated consolidated financial statements. As at December 31, 2017, the Company's Canadian subsidiaries have accumulated losses amounting to \$4,651,713 that expire during the years 2032 to 2037. These tax losses have not been recorded in the amended and restated consolidated financial statements. As at December 31, 2017, the Company's German subsidiary has accumulated losses amounting to €1,140,526 that can be used against future taxable income for an unlimited period.

**15. Selling, general and administrative expenses**

Included in selling, general and administrative expenses are the following expenses:

	(Restated – See note 1b)	
	December 31, 2017 \$	December 31, 2016 \$
Wages, salaries and employee benefits	10,327,232	4,376,215
Professional fees	928,161	136,000
Stock-based compensation	1,395,388	—
Non-recurring branding costs	119,821	279,465
Store-related opening and closing costs	1,373,181	1,335,670
Reporting issuer costs	151,960	—
Other	1,481,509	—
	<u>15,777,252</u>	<u>6,127,350</u>

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### 16. Related party transactions

In the normal course of its operations, the Company 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. In addition to the related party transactions and balances disclosed elsewhere in these amended and restated consolidated financial statements, significant transactions and balances between related parties are as follows:

	December 31, 2017 \$	December 31, 2016 \$
<b>Transactions with a commonly controlled company</b>		
Rental expense paid to a company controlled by common shareholders	144,000	136,000
<b>Transactions with a Board director and shareholder</b>		
Legal fees	233,250	88,315
<b>Transactions with an associate</b>		
Sales to Groupe Global LXR Inc.	—	549,783
<b>Business combination</b>		
Reacquisition of Groupe Global LXR Inc. <i>(note 8)</i>	2,650,331	—

### Transactions with key management personnel

The compensation earned by key management in aggregate was as follows:

	December 31, 2017 \$	December 31, 2016 \$
Wages, salaries, bonuses, consulting fees and stock-based compensation	1,368,248	147,385

### 17. Earnings (loss) per share

Basic earnings (loss) per share ("EPS") amounts are calculated by dividing the profit (loss) for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year. Diluted EPS amounts are calculated by dividing the profit (loss) attributable to ordinary equity holders of the parent (after adjusting for dividends, accretion interest on the mandatorily redeemable preference shares and gain/loss from embedded derivative on preferred shares) by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares into ordinary shares, unless these would be anti-dilutive.

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For the years ended December 31, 2017 and 2016, as a result of the net loss during those years, the warrants, stock-based awards and convertible redeemable preferred shares are anti-dilutive.

#### 18. Segment information

The Company has determined that it conducts its activities in a single industry segment as an omni-channel retailer, being the only operating segment, it uses to evaluate performance and allocate resources by the chief operating decision maker. The single operating segment includes all sales channels accessed by the Company's customers, including sales through the Company's retail network of stores, wholesale partners and online through its website. With respect to geographic areas, the Company's continuing operations are mainly in Canada, the United States, the United Kingdom and the European Union.

The following tables summarize net revenue and assets held by geography for the year ended:

#### Revenue by geographic region

	December 31, 2017 \$	December 31, 2016 \$
Canada	5,745,269	4,692,521
United States	26,545,378	16,208,203
United Kingdom	390,497	—
European Union	4,387,993	990,086
	<b>37,069,137</b>	<b>21,890,810</b>

#### Non-current assets by geographic region

	December 31, 2017 \$	December 31, 2016 \$
Canada	4,899,657	803,700
United States	2,030,597	384,557
United Kingdom	134,304	—
European Union	438,645	182,255
	<b>7,503,203</b>	<b>1,370,512</b>

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### 19. Financial risk management

The Company's activities expose it to a variety of financial risks, including risks related to foreign exchange, interest rate, credit, and liquidity.

#### Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Approximately 74% and 5% of the Company's sales are in U.S. dollars and in euros, respectively. In addition, inventory-related purchases are mainly denominated in Japanese yen, and accordingly, the Company is exposed to currency risk. The Company's currency risk is largely limited to currency fluctuations between U.S. dollars, euros and Japanese yen. The Company is exposed to currency risk through its cash, accounts receivable and accounts payable and accrued liabilities denominated in foreign currencies.

The Company's foreign exchange exposure is as follows:

	December 31, 2017			
	US \$	Euro €	Japanese yen ¥	Pound sterling £
Cash	1,005,220	193,059	5,739,450	32,185
Accounts receivable	2,661,833	425,627	50,437,522	131,686
Accounts payable and accrued liabilities	(1,604,594)	(38,099)	(232,356,513)	(19,368)
	<b>2,062,459</b>	<b>580,587</b>	<b>(176,179,541)</b>	<b>144,503</b>
	December 31, 2016			
	US \$	Euro €	Japanese yen ¥	Pound sterling £
Cash	549,760	29,027	8,157,676	—
Accounts receivable	736,979	76,189	28,798,174	—
Accounts payable and accrued liabilities	(286,573)	(47,860)	(270,362,261)	—
	<b>1,000,166</b>	<b>57,356</b>	<b>(233,406,411)</b>	<b>—</b>

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Assuming that all other variables remain constant, a revaluation of these monetary assets and liabilities due to a 5% rise or fall in the Canadian dollar against the U.S. dollar would have resulted in an increase or decrease to net loss and comprehensive loss in the amount of approximately \$67,000. Assuming that all other variables remain constant, a revaluation of these monetary assets and liabilities due to a 5% rise or fall in the Canadian dollar against the Japanese yen would have resulted in an increase or decrease to net loss and comprehensive loss in the amount of approximately \$150,000.

**Market risk – interest rate risk**

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Financial instruments that potentially subject the Company to cash flow interest rate risk include financial assets and liabilities with variable interest rates. The Company is exposed to cash flow risk on its credit facility and other term loans that bear interest at variable interest rates.

Based on the currently outstanding line of credit and total long-term debt bearing interest at variable rates as at December 31, 2017, if interest rates had changed by 100 basis points, assuming that all other variables had remained the same, the impact would have increased or decreased finance costs by approximately \$30,000.

**Liquidity risk**

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities. The Company's liquidity follows a seasonal pattern based on the timing of inventory purchases and capital expenditures. The Company is exposed to this risk mainly in respect of its trade and other payables (except government remittances), line of credit, long-term debt and operating lease commitments.

The Company expects that its trade and other payables will be discharged within 90 days.

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The contractual maturities and carrying amounts of financial liabilities are summarized in the following table:

	<b>Maturing in under 1 year</b>	<b>Maturing in 1 to 5 years</b>	<b>Total</b>
	\$	\$	\$
Accounts payable and accrued liabilities	6,241,675	—	6,241,675
Line of credit	8,189,476	—	8,189,476
Long-term debt	188,810	22,929	211,739
	<u>14,619,961</u>	<u>22,929</u>	<u>14,642,890</u>

The Company manages its risk of failing to discharge its financial liabilities in a timely manner by factoring its operating requirements and through the use of various financing sources, as needed (See note 1c – Going concern).

**Credit risk**

The Company is exposed to credit risk resulting from the possibility that counterparties may default on their financial obligations to it. The Company's maximum exposure to credit risk at the reporting date is equal to the carrying value of accounts receivable. Accounts receivable primarily consist of receivables from retail customers who pay by credit card and receivables from other companies for sales of wholesale products. Credit card payments have minimal credit risk and corporate receivables are closely monitored. In addition, a portion of the total trade accounts receivable is insured against possible losses.

As at December 31, 2017, 5 trade partners accounted for respectively 10%, 10%, 13%, 14% and 15%, for an aggregate of 62% of total trade accounts receivable. As at December 31, 2016, 5 trade partners accounted for respectively 11%, 15%, 17%, 20% and 27%, for an aggregate of 90% of total trade accounts receivable. Pursuant to their respective terms, trade accounts receivable are aged as follows:

	<b>December 31, 2017</b>	<b>December 31, 2016</b>
	\$	\$
0 – 30 days	<b>3,689,675</b>	1,179,312
31 – 60 days	<b>1,297,791</b>	449,810
61 – 90 days	<b>132,021</b>	27,363
91 – 120 days	<b>29,480</b>	26,724
	<u><b>5,148,967</b></u>	<u>1,683,209</u>

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Based on past experience, the Company believes that no significant allowance for doubtful accounts is necessary in respect of trade accounts receivable as current trade receivables and 31-60-day-old receivables together represent 97% of total gross trade accounts receivable (2016 – 97%). This balance includes the amounts owed by the Company's most significant retail partners and relates to customers that have a good payment history with the Company.

#### Fair values

Financial assets and financial liabilities, except for convertible redeemable preferred shares, are measured on an ongoing basis at fair value or amortized cost. Convertible redeemable preferred shares are measured at fair value through profit or loss. The disclosures in the "Financial instruments" section of note 2 describe how the categories of financial instruments are measured and how income and expenses, including fair value gains and losses, are recognized.

The carrying amount of the line of credit approximates its fair value due to a floating rate that could currently be obtained by the Company for a credit facility with similar conditions and maturities.

The classification of other financial instruments, as well as their carrying values and fair values, is shown in the table below:

	December 31, 2017		December 31, 2016	
	Carrying value	Fair value	Carrying value	Fair value
	\$	\$	\$	\$
<b>Financial liabilities</b>				
Convertible redeemable preferred shares	—	—	23,108,395	23,108,395

The Company has determined the estimated fair values of its financial instruments based on appropriate valuation methodologies; however, considerable judgment is required to develop these estimates. Accordingly, the estimated fair values are not necessarily indicative of the amounts the Company could realize or would pay in a current market exchange. The estimated fair value amounts can be materially affected by the use of different assumptions or methodologies.

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The Company categorizes its financial assets and liabilities measured at fair value into one of three different levels depending on the observability of the inputs used in the measurement.

Level 1: This level includes assets and liabilities measured at fair value based on unadjusted quoted prices for identical assets and liabilities in active markets that are accessible at the measurement date.

Level 2: This level includes valuations determined using directly (i.e., as prices) or indirectly (i.e., derived from prices) observable inputs other than quoted prices included within Level 1. Derivative instruments in this category are valued using models or other standard valuation techniques derived from observable market inputs.

Level 3: This level includes valuations based on inputs that are less observable, unavailable or where the observable data does not support a significant portion of the instruments' fair value.

The methods and assumptions used to estimate the fair value of financial instruments are described below:

- The estimated fair value of long-term debt bearing variable rates is considered to approximate its carrying value (Level 2).
- The estimated fair value of convertible redeemable preferred shares was determined using indirect observable inputs such as comparable companies trading revenue multiples (Level 2).

There were no significant transfers between Level 1, Level 2 and Level 3 of the fair value hierarchy during the years ended December 31, 2017 and 2016.

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#### 20. Management of capital

As at December 31, the Company's capital is as follows:

	December 31, 2017 \$ <u>(Restated)</u>	December 31, 2016 \$ <u>(Restated)</u>
Credit facility	8,189,476	3,399,362
Current portion of long-term debt	188,810	2,841,026
Long-term debt	22,929	187,727
Convertible redeemable preferred shares	—	23,108,395
Shareholders' equity (deficiency)	<u>16,630,907</u>	<u>(22,016,545)</u>
Total capital under management	<u>25,032,122</u>	<u>7,519,965</u>

The Company's objectives in managing capital are to ensure sufficient liquidity to pursue its organic growth, to establish a strong capital base so as to maintain investor, creditor and to provide an adequate return to shareholders.

The Company's primary uses of capital are to finance increases in non-cash working capital along with capital expenditures for its store expansion program.

The Company currently funds these requirements from cash flows from operations as well as its financial resources, which include cash balance, the line of credit (*note 9*), long-term debt (*note 11*) and through its issuances of Class B common shares (*note 13*). The Board of Directors does not establish quantitative return on capital criteria for management, but rather promotes year-over-year sustainable profitable growth. The Company is not subject to any externally imposed capital requirements.

There have been no changes with respect to the overall capital risk management strategy during the years ended December 31, 2017 and 2016.

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**21. Guarantees**

Some agreements to which the Company is party, specifically those related to debt agreements and the leasing of its premises, include indemnification provisions that may require the Company to make payments to a third party for breach of fundamental representation and warranty terms in the agreements, with respect to matters such as corporate status, title of assets, environmental issues, consents to transfer, employment matters, litigation, taxes payable and other potential material obligations. The maximum potential amount of future payments that the Company could be required to make under these indemnification provisions is not reasonably quantifiable as certain indemnifications are not subject to a monetary limitation. As at December 31, 2017, management does not believe that these indemnification provisions would require any material cash payment by the Company, and insurance coverage, estimated by management to be reasonable and sufficient, exists in order to minimize the previously mentioned risks.

The Company indemnifies its directors and officers against claims reasonably incurred and resulting from the performance of their services to the Company, and maintains liability insurance for its directors and officers as well as those of its subsidiary.

**22. Finance costs**

	<b>December 31, 2017</b>	<b>December 31, 2016</b>
	\$	\$
Credit facility and line of credit	<b>202,491</b>	327,406
Subordinated debt	<b>93,453</b>	186,570
Accretion expense on subordinated debt bonus <i>(note 11)</i>	<b>18,279</b>	473,072
Long-term debt	<b>24,676</b>	114,509
Amortization of financing fees and transaction costs	<b>671,597</b>	372,429
	<b>1,010,496</b>	1,473,986

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**23. Commitments and contingencies**

**a) Commitments**

The Company has various operating leases for their warehouse, retail stores and head office. The annual minimum payments under these operating leases are as follows:

	\$
2018	759,816
2019	250,975
2020	149,818

The schedule above includes commitments to a company controlled by the Company's Chief Executive Officer and Chief Operating Officer in the amounts of \$144,000, \$146,880 and \$149,818 for 2018 to 2020, respectively.

**b) Contingencies**

On October 31, 2017, a formal claim was received by the Company totalling 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 amended and restated consolidated financial statements.

**24. Comparative figures**

Certain comparative financial figures have been reclassified from those previously presented to conform to the presentation in the 2017 amended and restated consolidated financial statements.

**25. Subsequent events**

On February 12, 2018, the Company issued 2,728,500 Class B common shares to a syndicate of underwriters including Canaccord, Desjardins Securities Inc., Cormark Securities Inc. and Industrial Alliance Securities Inc. at a price of C\$5.25 per share for gross proceeds of \$14,324,625. 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.

During the third quarter of 2018, the Company closed all of its stores in Europe.