

Amended and Restated Condensed interim consolidated financial statements

# LXR<sup>AND</sup> CO

**LXRandCo, Inc.**

Three-month and six-month periods ended June 30, 2018 and 2017

LXRandCo, Inc.

**Consolidated statements of financial position**

(in Canadian dollars)

As at	<i>Restated – See note 1a)</i> June 30, 2018 \$	Unaudited <i>Restated – See notes 1 and 4</i> December 31, 2017 \$
<b>Assets (note 8)</b>		
<b>Current</b>		
Cash	4,832,882	4,015,025
Accounts receivable	1,868,833	5,380,344
Sales tax receivable	902,148	280,439
Inventory	16,609,027	14,708,588
Right of return asset (note 4)	46,445	42,162
Prepaid expenses and deposits	490,646	367,079
<b>Total current assets</b>	<b>24,749,981</b>	<b>24,793,637</b>
Property and equipment, net	4,266,700	3,044,726
Intangible assets, net	685,959	661,808
Other assets	112,682	112,682
Goodwill (note 7)	—	3,683,987
	<b>29,815,322</b>	<b>32,296,840</b>
<b>Liabilities and shareholders' equity</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	4,796,001	6,241,675
Credit facility and line of credit (note 8)	9,258,004	8,189,476
Income tax payable	490,918	497,811
Deferred revenue	45,012	64,961
Refund liabilities (note 4)	83,856	84,323
Sales tax payable	97,623	—
Current portion of long-term debt	147,400	188,810
<b>Total current liabilities</b>	<b>14,918,814</b>	<b>15,267,056</b>
Long-term debt	—	22,929
Other liabilities	40,328	159,097
Deferred income taxes	261,479	216,851
<b>Total liabilities</b>	<b>15,220,621</b>	<b>15,665,933</b>
<b>Shareholders' equity</b>		
Share capital (note 9)	90,202,459	77,200,920
Warrants (note 9)	12,940,438	12,940,438
Deficit	(89,255,289)	(74,233,336)
Additional paid-in capital	1,320,914	1,236,291
Accumulated other comprehensive loss	(613,821)	(513,405)
<b>Total shareholders' equity</b>	<b>14,594,701</b>	<b>16,630,908</b>
	<b>29,815,322</b>	<b>32,296,840</b>
Subsequent event (note 13)		

See accompanying notes

LXRandCo, Inc.

**Consolidated statements of income (loss) and comprehensive income (loss)**  
(in Canadian dollars)

Unaudited

	Three months ended		Six months ended	
	June 30,		June 30,	
	2018	2017	2018	2017
	Restated – See note 1a)	Restated – See note 1b)	Restated – See note 1a)	Restated – See note 1b)
	\$		\$	
<b>Net revenue (note 12)</b>	<b>9,940,214</b>	7,174,723	<b>19,912,728</b>	13,320,685
	<b>7,945,329</b>	5,136,572	<b>15,559,022</b>	9,478,026
Cost of sales	<b>1,994,885</b>	2,038,151	<b>4,353,706</b>	3,842,659
<b>Gross profit</b>				
Selling, general and administration expense (note 11)	<b>8,266,766</b>	2,887,841	<b>14,537,493</b>	5,455,144
Amortization and depreciation expenses	<b>428,863</b>	73,395	<b>698,890</b>	156,387
Impairment of goodwill (note 7)	<b>3,683,987</b>	—	<b>3,683,987</b>	—
	<b>(10,384,731)</b>	(923,085)	<b>(14,566,664)</b>	(1,768,872)
<b>Results from operating activities</b>	<b>496,959</b>	308,222	<b>774,374</b>	666,793
Debt extinguishment costs	—	612,939	—	612,939
Finance costs	<b>(224,801)</b>	(72,355)	<b>(401,746)</b>	(3,275)
Foreign exchange gain	—	188,355	—	226,101
Change in fair value of convertible redeemable preferred shares	—	—	—	48,112
Convertible redeemable preferred share dividends	—	—	—	257,532
Change in fair value of warrants	—	(1,465,090)	—	(1,465,090)
Non-recurring gain from a step business combination (note 6)	—	(1,465,090)	—	(1,465,090)
Excess of fair value over net assts acquired	—	45,519,262	—	45,519,262
Non-recurring acquisition costs	—	—	—	774,785
	—	—	—	(2,401,402)
Gain on expiration of warrants	<b>(10,656,889)</b>	(46,789,203)	<b>(14,939,292)</b>	(46,004,629)
<b>Loss before income taxes</b>				
Income tax expense (recovery)	<b>38,661</b>	85,876	<b>38,661</b>	86,996
Current	—	(197,531)	<b>44,000</b>	(197,531)
Deferred	<b>38,661</b>	(111,655)	<b>82,661</b>	(110,535)
<b>Loss for the period</b>	<b>(10,695,550)</b>	(46,677,548)	<b>(15,021,953)</b>	(45,894,094)
<b>Other comprehensive loss</b>				
Cumulative translation adjustment	<b>(54,803)</b>	127,987	<b>(100,416)</b>	32,263
<b>Comprehensive loss for the period</b>	<b>(10,750,353)</b>	(46,549,561)	<b>(15,122,369)</b>	(45,861,831)
<b>Loss per share (note 10)</b>				
Basic and fully diluted	<b>(0.75)</b>	(7.59)	<b>(1.10)</b>	(8.59)
Weighted average number of shares outstanding (note 10)				
Basic and fully diluted	<b>14,317,328</b>	6,151,869	<b>13,680,678</b>	5,345,387

See accompanying notes

LXRandCo, Inc.

**Consolidated statements of changes in shareholders' equity (deficiency)**  
(in Canadian dollars)

	Share capital	Warrants	Deficit	Additional paid-in capital	Cumulated translation adjustment	Unaudited Total shareholders' equity
	\$	\$	\$	\$	\$	\$
<b>Balance as at January 1, 2017</b> <sup>1</sup>	100	—	(21,843,820)	—	(172,824)	(22,016,544)
Net loss for the period <sup>1</sup>	—	—	(45,894,094)	—	—	(45,894,094)
Stock-based compensation expense <sup>1</sup>	—	—	—	735,975	—	735,975
Cumulative translation adjustment	—	—	—	—	32,263	32,263
Conversion of convertible redeemable preferred shares <sup>1</sup>	24,890,501	—	—	—	—	24,890,501
Class B common shares issued in Qualifying Acquisition <sup>1</sup>	52,310,319	12,940,438	—	—	—	65,250,757
<b>Balance as at June 30, 2017</b> <sup>1</sup>	<b>77,200,920</b>	<b>12,940,438</b>	<b>(67,737,914)</b>	<b>735,975</b>	<b>(140,561)</b>	<b>22,998,858</b>
Net loss for the period <sup>1</sup>	—	—	(6,495,422)	—	—	(6,495,422)
Stock-based compensation expense <sup>1</sup>	—	—	—	500,316	—	500,316
Cumulative translation adjustment	—	—	—	—	(372,844)	(372,844)
<b>Balance as at Decembre 31, 2017</b>	<b>77,200,920</b>	<b>12,940,438</b>	<b>(74,233,336)</b>	<b>1,236,291</b>	<b>(513,405)</b>	<b>16,630,908</b>
Net loss for the period <sup>1</sup>	—	—	(15,021,953)	—	—	(15,021,953)
Stock-based compensation expense	—	—	—	133,268	—	133,268
Cumulative translation adjustment <sup>1</sup>	—	—	—	—	(100,416)	(100,416)
Common shares issued	14,324,625	—	—	—	—	14,324,625
Equity issuance costs	(1,373,458)	—	—	—	—	(1,373,458)
Exercise of stock-options	50,372	—	—	(48,645)	—	1,727
<b>Balance as at June 30, 2018</b> <sup>1</sup>	<b>90,202,459</b>	<b>12,940,438</b>	<b>(89,255,289)</b>	<b>1,320,914</b>	<b>(613,821)</b>	<b>14,594,701</b>

See accompanying notes

<sup>1</sup> restated - see note Note 1

See accompanying notes

## Consolidated statements of cash flows

(in Canadian dollars)

Unaudited

	Three months ended		Six months ended	
	Restated – See note 1a)	Restated – See note 1b)	Restated – See note 1a)	Restated – See note 1b)
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
	\$	\$	\$	\$
<b>Operating activities</b>				
Net loss for the period	(10,695,550)	(46,662,224)	(15,021,953)	(45,894,094)
Non-cash items:				
Depreciation of property and equipment	303,166	44,299	504,395	105,047
Amortization of intangible assets	125,697	29,096	194,495	51,340
Amortization of deferred financing costs	328,848	330,849	412,975	501,247
Stock-based compensation expense (note 9)	(74,009)	247,439	14,498	735,975
Deferred income tax expense (recovery)	—	(197,531)	44,000	(197,531)
Unrealized foreign exchange (gain)				
loss on non-monetary assets	(2,574)	(74,174)	(70,005)	54,291
Non-recurring gain from a step business combination	—	(1,465,090)	—	(1,465,090)
Excess of fair value over net assets acquired	—	45,519,262	—	45,519,262
Convertible redeemable preferred share dividends	—	—	—	48,112
Change in fair value of convertible redeemable preferred shares	—	188,355	—	—
Impairment of goodwill	3,683,987	—	3,683,987	—
Change in fair value of redeemable preferred shares	—	—	—	226,101
Change in fair value of warrants	—	—	—	257,532
Gain on expiration of warrants	—	—	—	(2,401,402)
Interest accretion expense on subordinated debt	—	—	—	18,279
	(6,330,435)	(2,039,719)	(10,237,608)	(2,440,931)
Net change in non-cash working capital balances related to operations	3,690,083	(3,022,384)	363,401	(5,229,072)
<b>Cash flows used in operating activities</b>	<b>(2,640,352)</b>	<b>(5,062,103)</b>	<b>(9,874,207)</b>	<b>(7,670,003)</b>
<b>Investing activities</b>				
Acquisition of intangible assets	(3,664)	(242,927)	(218,646)	(372,040)
Acquisition of property and equipment	(1,122,064)	(51,498)	(2,703,258)	(126,688)
Cash acquired from acquisition	—	—	—	—
Cash acquired from a business combination (note 6)	—	—	—	803,661
<b>Cash flows provided by (used in) investing activities</b>	<b>(1,125,728)</b>	<b>(294,425)</b>	<b>(2,921,904)</b>	<b>304,933</b>
<b>Financing activities</b>				
Net increase in credit facility	134,135	(4,571,353)	655,567	(3,873,743)
Repayment of long-term debt	(32,186)	(2,942,585)	(64,339)	(3,181,438)
Cash acquired from the LXR acquisition	—	19,551,550	—	19,551,550
Proceeds from issuance of common shares	—	—	14,324,625	—
Payment of equity issuance costs	—	(425,423)	(1,373,458)	(487,154)
Exercise of stock-options	—	—	1,727	—
Redemption of preferred shares	—	(300,000)	—	(300,000)
Proceeds from issuance of redeemable preferred shares	—	—	—	1,000,000
<b>Cash flows provided by financing activities</b>	<b>101,949</b>	<b>11,312,189</b>	<b>13,544,122</b>	<b>12,709,215</b>
<b>Effect of exchange rate changes on cash</b>	<b>2,415</b>	<b>(7,243)</b>	<b>69,846</b>	<b>(15,448)</b>
<b>Net decrease in cash during the period</b>	<b>(3,661,716)</b>	<b>5,948,418</b>	<b>817,857</b>	<b>5,328,697</b>
Cash, beginning of period	8,494,597	319,244	4,015,025	938,966
<b>Cash, end of period</b>	<b>4,832,882</b>	<b>6,267,662</b>	<b>4,832,882</b>	<b>6,267,663</b>
<b>Supplementary information (as reported in operating activities)</b>				
Income taxes paid	—	—	—	—
Interest paid	191,330	—	281,951	129,889
Convertible preferred shares issued in a business combination (note 6)	—	2,650,331	—	2,650,331

See accompanying notes

**LXRandCo, Inc.**

**Notes to the amended and restated interim condensed consolidated financial statements**

(in Canadian dollars)

For the three-month and six-month periods ended June 30, 2018 and 2017

Unaudited

**1. Company 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 St-Laurent Boulevard, Montréal, Québec, Canada, H2R 1W7. The Company also maintains an office in Tokyo, Japan.

As at June 30, 2018, LXRandCo’s retail network consisted of 119 stores located as follows: 98 in the United States, one in Germany, four in Belgium, four in the Netherlands, three in the United Kingdom and nine in Canada. During the three-month period ended on June 30, 2018, the Company closed 17 of its European retail network stores in Germany, Belgium, Netherlands and United Kingdom respectively. In the United States, the Company closed 32 stores mainly from one retailer while opening 16 new stores.

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.

**LXRandCo, Inc.**

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

For the three-month and six-month periods ended June 30, 2018 and 2017

Unaudited

**Restatement of 2017 Consolidated Financial Statements**

On August 14, 2018, management announced its intention to restate its originally filed consolidated financial statements as at and for the years ended December 31, 2017 and 2016 and corresponding management's discussions and analysis for the years ended December 31, 2017 and 2016. Management determined that a restatement of the originally filed consolidated financial statements and corresponding management's discussions and analysis for the years ended December 31, 2017 and 2016 is required with respect of the accounting treatment of the equity consideration resulting from the acquisition of LXR Produits de Luxe International Inc. ("LXR International") that occurred on June 9, 2017 (the "LXR Acquisition"). 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 redeemable preferred shares of LXR International issued and outstanding prior to the LXR Acquisition, which 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. In addition, as a result of other work completed by management on its inventory resulting from a control deficiency identified after the originally filed consolidated financial statements were issued, management concluded that there were misstatements in the December 31, 2017 inventory balance that also required correction. All restatements relating to the December 31, 2017 comparative figures shown in these amended and restated interim condensed consolidated financial statements have been reflected throughout this document and further details are provided in the notes to the 2017 amended and restated consolidated financial statements and 2017 amended and restated management's discussions and analysis.

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

The Company's original interim condensed financial statements for the three-month and six-month periods ended June 30, 2018 were filed without having been reviewed by the Company's auditors since the external auditors had not issued their independent auditors' report on the December 31, 2017 amended and restated consolidated financial statements. The restatement of originally issued interim condensed consolidated financial statements increased net loss for the three-month and six-month periods ended June 30, 2018 by \$1,533,154, respectively. Below are tables summarizing the impact of the restatement matters on the previously issued interim condensed consolidated financial statements for the three-month and six-month periods ended June 30, 2018.

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] Cash - The Company reviewed the calculation of the foreign exchange impact on its bank balances in foreign currency. Accordingly, the Company increased its cash and increased the foreign exchange gain by \$96,896.

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

For the three-month and six-month periods ended June 30, 2018 and 2017

Unaudited

[b] Accounts receivable - Following the completion of the June month-end reconciliation of sales and trade receivable amounts with a Hybrid store retail partner, the Company identified that staff costs and other operating costs were underestimated by \$503,371. Accordingly, the Company revised selling, general and administration expense and increased it by \$503,371. Since the trade receivable from the Hybrid store retail partner is paid net of these expenses, the Company reduced accounts receivable by the same amount.

[c] Inventory provision - As part of the completion of the amended and restated consolidated financial statements, the Company conducted complete physical inventory counts at all of its locations at the end of the month of September 2018 and reconciled back the quantities and amounts of inventory on hand as at December 31, 2017. After reconciling its inventory, the Company concluded that a total amount of \$1,028,151 pertaining to shrinkage should have reduced the inventory as at December 31, 2017. Since the Company did reduced its inventory balance as at June 30, 2017 in the originally issued interim condensed consolidated financial statements by a shrinkage provision expense of \$558,930, the Company recorded for the additional shrinkage pertaining to inventory on-hand as at December 31, 2017 by reducing inventory by \$469,221. The cost of sales for the three-month and six-month periods ended June 30, 2018 was reduced by \$558,930 as this shrinkage was corrected in the amended and restated consolidated financial statements for the year ended December 31, 2017.

[d] Inventory overhead - The Company corrected its inventory overhead, which comprise duty and transportation costs that are directly incurred to bring the inventory to its present location due to an improper overhead calculation. Accordingly, the Company decreased the inventory by \$697,653 and increased cost of sales and other operating expenses by \$656,278 and \$41,375, respectively. The company also corrected for non-significant errors of \$15,983 and \$36,118 increasing respectively the cost of sales and selling, general and administration expense.

[e] Stock based compensation - The Company corrected for a calculation error that was made in the initial calculation of the stock-based compensation expense that was originally recorded as of June 30, 2018. The impact of the correction is to increase the stock-based compensation expense and the additional paid-in capital by \$473,724 for the three-month and the six-month periods ended June 30, 2018.

[f] Accounts payable and accrued liabilities - The Company adjusted its accrued liabilities resulting in an increase of \$263,263 related to understated stores' closures related liabilities.

[g] Amortization and depreciation expense - The Company corrected for a calculation error of the amortization and depreciation expense of property and equipment and intangible assets resulting in an additional expense of \$254,666, with a corresponding decrease of the net carrying amounts of property and equipment and intangible assets amounting to \$29,964 and \$225,401, respectively.

[h] Foreign exchange gain - The Company corrected for an improper foreign exchange calculation and recognized an additional foreign exchange gain of \$55,601.



**Notes to the amended and restated interim condensed consolidated financial statements**

(in Canadian dollars)

For the three-month and six-month periods ended June 30, 2018 and 2017

Unaudited

[i] Cumulative translation adjustment – As a result of the corrections described in b, f and g, the Company increased its cumulative translation adjustment by \$14,216 and \$31,398 for the 3-month and 6-month periods ended June 30, 2018, respectively.

[j] Share capital - As disclosed in Note 1 b) of the amended and restated consolidated financial statements for the years ended December 31, 2017 and 2016, the Company corrected its accounting for the LXR Acquisition, which resulted in an increase of the total consideration deemed to have been paid to acquire the net assets of Gibraltar Growth by \$31,831,042, for a total of \$65,250,757, of which \$52,310,319 was attributable to share capital and \$12,940,438 to warrants. The preliminary restated share capital amount determined in the originally issued interim condensed consolidated financial statements filed on August 14, 2018 was established at \$100,705,336, which included a share capital amount for Class B common shares issued in the qualifying acquisition of \$62,813,196. Accordingly, as at June 30, 2018, the Company decreased its share capital by \$10,502,877 and increased warrants by \$12,940,438.

**Reclassification and other**

[k] Reclassification - The Company reclassified certain accounts receivable and accounts payable that had initially been inappropriately offset totaling \$83,856.

[l] Credit facility - The Company proceeded to reclassified an amount of \$147,762 that initially inappropriately reduced net change in non-cash working capital balances and increased net increase in credit facility.

[m] The Company corrected is effect of exchange rate changes by \$139,692 resulting from the adjustments mentioned in [a] and [h] referred above.

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.

**LXRandCo, Inc.**

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

For the three-month and six-month periods ended June 30, 2018 and 2017

Unaudited

**Restatement schedule for the 3-month and 6-month periods ended June 30, 2018**

Consolidated statement of financial position	As reported \$	Adjustments \$	Reference	Restated \$
<b>Assets</b>				
Cash	4,735,986	96,896	a	4,832,882
Accounts receivable	2,288,348	(419,515)	b, k	1,868,833
Inventory	17,775,901	(1,166,874)	c, d	16,609,027
<b>Total current assets</b>	<b>26,239,474</b>	<b>(1,489,493)</b>	a, b, c, d, k	<b>24,749,981</b>
Property and equipment, net	4,296,664	(29,964)	g	4,266,700
Intangible assets, net	911,360	(225,401)	g	685,959
<b>Total assets</b>	<b>31,560,181</b>	<b>(1,744,859)</b>	a, b, c, d, g	<b>29,815,322</b>
<b>Liabilities and shareholders' equity</b>				
Accounts payable and accrued liabilities	4,448,882	347,119	f, k	4,796,001
<b>Total current liabilities</b>	<b>14,571,695</b>	<b>347,119</b>	f	<b>14,918,814</b>
<b>Total liabilities</b>	<b>14,873,502</b>	<b>347,119</b>	f	<b>15,220,621</b>
<b>Shareholders' equity</b>				
Share capital	100,705,336	(10,502,877)	j	90,202,459
Warrants	—	12,940,438	j	12,940,438
Deficit	(84,283,423)	(4,971,866)	a - j	(89,255,289)
Additional paid-in capital	847,190	473,724	e	1,320,914
Accumulated other comprehensive loss	(582,424)	(31,398)	l	(613,821)
<b>Total shareholders' equity</b>	<b>16,686,679</b>	<b>(2,091,979)</b>		<b>14,594,701</b>
	<b>31,560,181</b>	<b>(1,744,860)</b>		<b>29,815,322</b>

**LXRandCo, Inc.**

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

For the three-month and six-month periods ended June 30, 2018 and 2017

Unaudited

	As reported	Adjustments	Reference	Restated
<b>Consolidated statement of loss and comprehensive loss for the 3-month period ended June 30, 2018</b>	\$	\$		\$
Cost of sales	7,831,998	113,131	c, d	7,945,329
Gross profit	2,108,016	(113,131)	c, d	1,994,885
Selling, general and administration expenses	6,948,914	1,317,852	b, d, e, f	8,266,766
Amortization and depreciation expenses	174,197	254,666	g	428,863
<b>Results from operating activities</b>	<b>(8,699,082)</b>	<b>(1,685,649)</b>	<b>b, c, d, e, f, g</b>	<b>(10,384,731)</b>
Foreign exchange gain	(72,306)	(152,495)	a, h	(224,801)
<b>Loss before income taxes</b>	<b>(9,123,735)</b>	<b>(1,533,154)</b>	<b>a – h</b>	<b>(10,656,889)</b>
<b>Net loss</b>	<b>(9,162,396)</b>	<b>(1,533,154)</b>	<b>a – h</b>	<b>(10,695,550)</b>
Cumulative translation adjustment	(69,019)	14,216	l	(54,803)
<b>Comprehensive loss</b>	<b>(9,231,415)</b>	<b>(1,518,938)</b>	<b>a – i</b>	<b>(10,750,353)</b>
<b>Loss per share</b>				
Basic and fully diluted	(0.64)	(0.11)		(0.75)
Weighted average number of shares outstanding – basic and fully diluted	14,317,328	—		14,317,328
	<b>As reported</b>	<b>Adjustments</b>	<b>Reference</b>	<b>Restated</b>
<b>Consolidated statement of loss and comprehensive loss for the 6-month period ended June 30, 2018</b>	\$	\$		\$
Cost of sales	15,445,691	113,331	c, d	15,559,022
Gross profit	4,466,837	(113,131)	c, d	4,353,706
Selling, general and administration expenses	13,219,641	1,317,852	b, d, e, f	14,537,493
Amortization and depreciation expenses	444,224	254,666	g	698,890
<b>Results from operating activities</b>	<b>(12,881,015)</b>	<b>(1,685,648)</b>	<b>b, c, d, e, f, g</b>	<b>(14,566,663)</b>
Foreign exchange gain	(249,251)	(152,495)	a, h	(401,746)
<b>Loss before income taxes</b>	<b>(13,406,138)</b>	<b>(1,533,154)</b>	<b>a – h</b>	<b>(14,939,292)</b>
<b>Net loss</b>	<b>(13,488,799)</b>	<b>(1,533,154)</b>	<b>a – h</b>	<b>(15,021,953)</b>
Cumulative translation adjustment	(69,019)	(31,397)	l	(100,416)
<b>Comprehensive loss</b>	<b>(13,557,818)</b>	<b>(1,564,551)</b>	<b>a – i</b>	<b>(15,122,369)</b>
<b>Loss per share</b>				
Basic and fully diluted	(0.96)	(0.11)		(1.10)
Weighted average number of shares outstanding – basic and fully diluted	13,999,003,	—		13,680,678

**LXRandCo, Inc.**

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

For the three-month and six-month periods ended June 30, 2018 and 2017

Unaudited

	As reported	Adjustments	Reference	Restated
Consolidated statement of cash flows for the 6-month period ended June 30, 2018	\$	\$		\$
<b>Operating activities</b>				
Net loss for the period	(13,488,799)	(1,533,154)	a – h	(15,021,953)
Depreciation of property and equipment	475,130	29,265	g	504,395
Amortization of intangible assets	(30,906)	225,401	g	194,495
Stock-based compensation expense	(459,226)	473,724	e	14,498
Net change in non-cash working capital balances related to operations	(546,329)	909,730	c,d,f,l	363,401
<b>Cash flows used in operating activities</b>	<b>(9,979,173)</b>	<b>104,966</b>		<b>(9,874,207)</b>
<b>Financing activities</b>				
Net increase in credit facility	803,329	(147,762)	l	655,567
<b>Cash flows provided by financing activities</b>	<b>13,691,884</b>	<b>(147,762)</b>	l	<b>13,544,122</b>
<b>Effect of exchange rate changes on cash</b>	<b>(69,846)</b>	<b>139,692</b>	a – h	<b>69,846</b>
<b>Net change in cash during the period</b>	<b>720,961</b>	<b>96,896</b>	a	<b>817,857</b>
<b>Cash end of year</b>	<b>4,735,986</b>	<b>96,896</b>	a	<b>4,832,882</b>

**1b) Restatement of 2017 comparative three-month and six-month periods ended June 30, 2018**

The restatement of previously issued consolidated financial statements increased the net loss and comprehensive loss for the 3-month and 6-month periods ended June 30, 2017 by \$30.2 million and \$33.8 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.

The restatement of previously issued consolidated financial statements increased the net loss and comprehensive loss for the 3-month and 6-month periods ended June 30, 2017 by \$30.2 million and \$33.8 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.

[a] LXR acquisition – 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 \$32,744,377 in the consolidated statement of loss for the 3-month and 6-month periods ended June 30, 2017. Therefore, considering the fair value on the net assets acquired amounting to \$18,654,635, an Excess of fair value over net assets acquired amounting to \$14,089,742 was reflected as an expense in the consolidated statement of loss. After further reconsideration,

**Notes to the amended and restated interim condensed consolidated financial statements**

(in Canadian dollars)

For the three-month and six-month periods ended June 30, 2018 and 2017

Unaudited

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 \$31,429,520 higher, for a total of \$65,250,757. During the finalization of the December 31, 2017 consolidated financial statements, management adjusted net assets acquired by \$401,522, and accordingly, reduced the related Excess of fair value over net assets acquired. The Company also corrected its LXR Acquisition purchase price equation, by grossing up cash and accounts payable by \$546,561.

[b] Convertible redeemable preferred shares – 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. 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 is 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 for the six-month period ended June 30, 2017. Since most of the warrants expired without being exercised at the end of January 31, 2017, the correction of the convertible redeemable preferred shares impacting the three-month and six-month periods ended June 30, 2017 amounted to \$188,355 and \$257,532, respectively.

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

For the three-month and six-month periods ended June 30, 2018 and 2017

Unaudited

[c] Stock-based compensation – 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 \$61,708 and \$323,169 for three-month and six-month period ended June 30, 2017, with a corresponding decrease in additional paid-in capital. In addition, as part of the audit of the originally issued consolidated financial statements as at and for the year ended December 31, 2017, the Company corrected for an understatement of stock-based compensation expense, of which \$138,740 and \$728,471 pertained to the three-month and six-month periods ended June 30, 2018, respectively. These corrections resulted in a net increase of \$77,032 and \$499,340 of selling, general and administration expenses for the three-month and six-month periods ended June 30, 2018, respectively.

[d] Groupe Global LXR reacquisition (note 6) – 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. Management also previously determined the Company effectively obtained control of Global on January 7, 2017, which is a date earlier than the closing date of April 12, 2017, since the reacquisition was approved by common shareholders and only pending on legal documentation. However, as part of the restatement of the amended and restated consolidated financial statements as at and for the year ended December 31, 2017, management reconsidered such position and concluded that the effective acquisition date should have been April 12, 2017. This change did not impact significantly the accounting for the reacquisition of Global, however, management adjusted the three-month period ended June 30, 2017 to present the non-recurring gain on acquisition of an associate of \$1,465,090.

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:

**LXRandCo, Inc.**

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

For the three-month and six-month periods ended June 30, 2018 and 2017

Unaudited

	As reported	Adjustments	Reference	Restated
	\$	\$		\$
<b>Consolidated statement of loss and comprehensive loss for the three-month period ended June 30, 2017</b>				
Selling, general and administration expenses	2,810,809	77,032	c	2,887,841
<b>Results from operating activities</b>	<b>(846,053)</b>	<b>(77,032)</b>	<b>c</b>	<b>(923,085)</b>
Non-recurring gain on acquisition of an associate	—	(1,465,090)	d	(1,465,090)
Change in fair value of convertible redeemable preferred shares	—	188,355	b	188,355
Excess of fair value over net assets acquired	14,089,742	31,429,520	a	45,519,262
Loss before income taxes	(16,559,386)	(30,229,817)	a-d	(46,789,203)
Net loss	(16,447,731)	(30,229,817)	a-d	(46,677,548)
Comprehensive loss	(16,319,744)	(30,229,817)	a-d	(46,549,561)
<b>Loss per share</b>				
Basic and fully diluted	(2.51)	(4.91)		(7.59)
Weighted average number of shares outstanding – basic and fully diluted	6,558,259	(406,390)		6,151,869

	As reported	Adjustments	Reference	Restated
	\$	\$		\$
<b>Consolidated statement of loss and comprehensive loss for the six-month period ended June 30, 2017</b>				
Selling, general and administration expenses	4,955,794	499,350	c	5,455,144
<b>Results from operating activities</b>	<b>(1,269,522)</b>	<b>499,350</b>	<b>c</b>	<b>(1,768,872)</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	14,089,742	31,429,520	a	45,519,262
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>(12,205,933)</b>	<b>(33,798,696)</b>	<b>a-d</b>	<b>(46,004,629)</b>
<b>Net loss</b>	<b>(12,095,398)</b>	<b>(33,798,696)</b>	<b>a-d</b>	<b>(45,894,094)</b>

**LXRandCo, Inc.**

**Notes to the amended and restated interim condensed consolidated financial statements**  
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Unaudited

<b>Comprehensive loss</b>	(12,063,135)	(33,798,696)	a-d	(45,861,831)
<b>Loss per share</b>				
Basic and fully diluted	(2.17)	(6.32)		(8.59)
Weighted average number of shares outstanding – basic and fully diluted	5,571,170	(225,783)		5,345,387

	As reported	Adjustments	Reference	Restated
	\$	\$		\$
<b>Consolidated statement of cash flows for the six-month period ended June 30, 2017</b>				
<b>Operating activities</b>				
Net loss for the period	(12,095,398)	(33,798,696)	a – e	(45,894,094)
Stock-based compensation	236,625	499,350	c	735,975
Non-recurring gain from a step business combination	(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	14,089,742	31,429,520	a	45,519,262
Net change in non-cash working capital balances related to operations	(4,682,511)	(546,561)	a, e, g	(5,229,072)
Cash flows used in operating activities	(7,123,442)	(546,561)		(7,670,003)
<b>Investing activities</b>				
Cash acquired from acquisition	19,004,989	(19,004,989)	a, g	—
Cash flows provided by (used in) investing activities	19,309,922	(19,004,989)	a, g	304,933
<b>Financing activities</b>				
Cash proceeds from acquisition		19,551,550	a, g	19,551,550
Cash flows provided by financing activities	(6,842,335)	19,551,550	a, g	12,709,215
Cash end of period	6,267,663	—	—	6,267,663

**2. Summary of significant accounting policies**

These amended and restated interim condensed consolidated financial statements have been prepared in accordance with IAS 34, Interim Financial Reporting, and have been prepared on a historical cost basis, except for stock options.



**LXRandCo, Inc.**

## **Notes to the amended and restated interim condensed consolidated financial statements**

(in Canadian dollars)

For the three-month and six-month periods ended June 30, 2018 and 2017

Unaudited

Accordingly, these interim condensed consolidated financial statements do not include all of the financial statement disclosures required for annual financial statements and should be read in conjunction with LXRandCo's audited amended and restated consolidated financial statements for the year ended December 31, 2017, which have been prepared in accordance with International Financial Reporting Standards ("IFRS"). In management's opinion, the unaudited interim condensed consolidated financial statements reflect all the adjustments that are necessary for a fair presentation of the results for the interim periods presented. These interim condensed consolidated financial statements have been prepared using the accounting policies and methods of computation as outlined in note 2 of the amended and restated consolidated financial statements for the year ended December 31, 2017, except for the adoption of new standards in effect as of January 1, 2018 described in note 4.

The preparation of interim condensed consolidated financial statements requires management to make estimates and assumptions using judgments that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses during the reporting period. Estimates and other judgments are continually evaluated and are based on management's experience and other factors, including expectations about future events that are believed to be reasonable under the circumstances. Actual results may differ from those estimates.

In preparing these amended and restated interim condensed consolidated financial statements, critical judgements made by management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those referred to in note 4 of the amended and restated consolidated financial statements for the year ended December 31, 2017.

LXRandCo's business has demonstrated some seasonality to date, but with only a slightly higher proportion of net revenue generated during the second half of the year. Retail sales will vary by quarter based on consumer spending behaviour. The Company is able to adjust certain variable costs in response to any seasonal revenue patterns; however, certain costs are fixed. Historically, the Company's revenues are higher in the fourth quarter due to the holiday season.

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

The Company's amended and restated interim condensed consolidated financial statements for the three-month and six-month periods ended June 30, 2018 were authorized for issuance in accordance with a resolution of the Board of Directors on November 13, 2018.

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

For the three-month and six-month periods ended June 30, 2018 and 2017

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**3. Going concern uncertainty**

The accompanying amended and restated interim condensed 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 six-month period ended June 30, 2018, the Company incurred a net loss of \$15.0 million and used cash in operations of \$9.9 million. In addition, as at June 30, 2018, the Company had \$4.8 million in cash and the Company's revolving credit facility, which is subject to maximum draw based on a borrowing base calculated as a percentage of eligible accounts receivable and eligible inventory, was fully used. The Company's committed cash obligations and expected level of expense for the next few months exceed its committed sources of funds available as of November 13, 2018.

These results raise doubt about the Company's ability to continue as a going concern within one year following the issuance of the amended and restated interim condensed consolidated financial statements without obtaining additional financial resources or realizing successfully its updated strategic plan. Therefore, the use of the going concern basis may not be appropriate.

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.

The amended and restated condensed interim 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.

**4. Adoption of new accounting standards**

***IFRS 15 Revenue from Contracts with Customers***

The Company applied on January 1, 2018, IFRS 15 *Revenue from Contracts with Customers*.

IFRS 15 supersedes IAS 18 Revenue and related Interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

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The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

**(i) Sale of goods**

The Company's contracts with customers for the sale of goods include one performance obligation. The Company has concluded that revenue from sale of goods should be recognised at the point in time when control of the good is transferred to the customer, generally recorded at the point of sale for retail and upon receipt of the goods by the customer for e-Commerce 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.

The adoption of IFRS 15 did not have an impact on the timing of revenue recognition.

**(ii) Variable consideration**

The Company provides retail store customers with a minimal right to return within a short 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. Prior to the adoption of IFRS 15, the Company recognised revenue from the sale of goods measured at the fair value of the consideration received or receivable, net of discounts, rebates, estimated returns and sales taxes.

Under IFRS 15, rights of return give rise to variable consideration. The variable consideration is estimated at contract inception and constrained until the associated uncertainty is subsequently resolved.

**Rights of return**

When a contract provides a customer with a right to return the goods within a short specified period, the Company previously estimated expected returns using accumulated experience. IFRS 15 requires to use the expected value method, which is similar to a probability-weighted average amount approach. Prior to adoption of IFRS 15, the amount of revenue related to the expected returns was deferred and recognized in the consolidated statement of financial position as deferred revenue with a corresponding adjustment to cost of sales. The initial carrying amount of goods expected to be returned was included within inventory.

Under IFRS 15, the consideration received from the customer is variable because the contract allows the customer to return the products. The Company uses the expected value method to estimate the goods that will be returned because this method best predicts the amount of variable consideration to which the Company will be entitled. The Company applies the requirements in IFRS 15 on constraining estimates of variable consideration to determine the amount of variable consideration that can be included in the transaction price. The Company presents a refund

**Notes to the amended and restated interim condensed consolidated financial statements**  
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liability and an asset for the right to recover products from a customer separately in the consolidated statement of financial position. Upon adoption of IFRS 15, the Company reclassified the provision for the right of return from deferred revenue to Refund liabilities and the related return asset from Inventories to Right of return assets.

The consolidated statement of financial position as at 31 December 2017 was restated resulting in recognition of Right of return assets and Refund liabilities amounting to \$42,162 and \$84,323, respectively and decreases in deferred revenue and inventory amounting to \$84,323, and \$42,162, respectively.

The Company adopted IFRS 15 using the full retrospective method of adoption.

**IFRS 9 Financial Instruments**

The Company applied, on January 1, 2018, IFRS 9 *Financial Instruments*. IFRS 9 replaces IAS 39 *Financial Instruments: Recognition and Measurement*, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

**Classification and Measurement**

IFRS 9 provides a single model for financial asset classification and measurement that is based on both the business model for managing financial assets and the contractual cash flow characteristics of the financial assets. These factors determine whether the financial assets are measured at amortized cost, fair value through other comprehensive income, or fair value through profit or loss.

The classification and measurement of financial liabilities remain essentially unchanged under IFRS 9, except for financial liabilities designated as measured at fair value through profit or loss under the fair value option. Once the fair value election is made, changes in fair value attributable to changes in an entity's own credit risk must be recognized in Other comprehensive income rather than in net income.

**Impairment**

The adoption of IFRS 9 has changes the accounting for impairment losses for financial assets by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss ("ECL") approach. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the entities expects to receive. The shortfall is then discounted at an approximation to the asset's original effective interest rate.

For Trade and other receivables, the Company has applied the standard's simplified approach and has calculated ECLs based on lifetime expected credit losses. The Company has established a provision matrix that is based on the Company's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

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The adoption of IFRS 9 did not have an impact on the Company's consolidated financial statements.

**5. Future changes in accounting principles**

**Standards issued but not yet effective**

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 consolidated 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.

**6. 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. ("Global") by repurchasing the interest of Global that it did not own 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 to \$2,650,331. Global is the subsidiary of the Company that is responsible for the LXR'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. As previously disclosed in Note 4 of the originally issued consolidated financial statements as at and for the year ended December 31, 2017, management used judgment in determining the effective date on which the Company obtained control of Global. Management previously determined the Company effectively obtained control of Global on January 7, 2017, which is a date earlier than the closing date of April 12, 2017, since the reacquisition was approved by common shareholders and only pending on legal documentation. However, as part of the restatement of the consolidated financial statements as at and for the year ended December 31, 2017, management reconsidered such position and concluded that the effective acquisition date should have been April 12, 2017. This change did not impact significantly the accounting for the reacquisition of Global, however,

## LXRandCo, Inc.

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

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management adjusted the 3-month period ended June 30, 2017 to present the non-recurring gain on acquisition of an associate of \$1,465,090.

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

	\$
<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
	<hr/> 3,294,690
<b>Liabilities assumed</b>	
Accounts payable and accrued liabilities	341,254
Loan payable to related parties	303,105
	<hr/> 644,359
Net assets acquired	2,650,331
Purchase price consideration	
Issuance of 59,558 convertible redeemable preferred shares	<hr/> 2,650,331

#### 7. Goodwill impairment

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

Following the impairment test, the Company recognized a goodwill impairment charge of \$3,683,987, which corresponds to the balance of goodwill as at June 30, 2018. The recoverable amount is determined based on value in use, using a discounted cash flow model. The Company prepares cash flow forecasts based on the most recently approved budget and three-year updated strategic plan, without considering any potential improvements and enhancements. Cash flow forecasts reflect the risk associated, as well as the most recent economic indicators. Cash flow forecasts beyond three years are extrapolated based on estimated growth rates that do not exceed the average long-term growth rates for the relevant markets.

#### 8. Credit facility

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

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Unaudited

On June 14, 2017, and as amended on October 18, 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.

The Line of Credit bears interest at (a) the bank's prime rate (3.45% as at June 30, 2018; 3.2% as at December 31, 2017) or U.S. base rate if denominated in U.S. dollars (5.0% as at June 30, 2018; 4.5% as at December 31, 2017) plus an applicable margin of 0.50%, or (b) the banker's acceptance rate (1.56% as at June 30, 2018; 1.37% as at December 31, 2017), plus an applicable margin of 2.00% or LIBOR (2.09% as at June 30, 2018; 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.

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.

As at June 30, 2018, the Company had drawn \$9,258,004 on the available balance (the Company had drawn \$8,602,491 on the available balance as at December 31, 2017) and was in excess of the maximum permitted available amount. Accordingly, the Company was required to repay an amount of \$650,000, which represents the excess of the maximum available amount, in order to not fall into an event of default under the Line of Credit agreement. This amount was subsequently paid in two installments on July 30, 2018 and August 3, 2018.

The Line of Credit also requires the Company to meet certain non-financial covenants, which were not met as a result of the going concern uncertainty, and accordingly, the Line of Credit is presented as a current liability.

#### 9. Share capital (restated – see note 1b))

##### Authorized

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

Class B common shares, voting and fully participating

Issued	Number	Amount \$
Balance, January 1, 2018	12,946,484	77,200,920
Share issuance, net of issuance cost	2,728,500	12,951,167

## LXRandCo, Inc.

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

For the three-month and six-month periods ended June 30, 2018 and 2017

Unaudited

Exercise of stock options	1,028	50,372
Balance, June 30, 2018	<u>15,676,012</u>	<u>90,202,459</u>

On February 12, 2018, the Company issued 2,728,500 Class B common shares at a price of C\$5.25 per share for gross proceeds of \$14,324,625. The Company incurred \$1,373,458 of share issuance costs that were recorded as a reduction of the related equity proceeds.

#### Forfeitable founders' shares

As at June 30, 2018, 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 June 30, 2018, 10,861,250 warrants to purchase Class B common shares of the Company are outstanding. Each warrant became exercisable 30 days after the completion of a Qualifying 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.

#### 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 favor of 285,744 options to purchase Class B common shares of LXRandCo (the "Replacement Options"). The Replacement Options provide an optionee 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 options 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.



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

For the three-month and six-month periods ended June 30, 2018 and 2017

Unaudited

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:

	<b>June 30, 2018</b>	<b>December 31, 2017</b>
Expected volatility	<b>100% yearly</b>	32% yearly
Risk-free interest rate	<b>2.19%</b>	1.48%
Expected option life	<b>6.25 years</b>	6.25 years
Expected dividend yield	—	—

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

	<b>June 30, 2018</b>		<b>December 31, 2017</b>	
	<b>Number</b>	<b>Weighted average exercise price \$</b>	<b>Number</b>	<b>Weighted average exercise price \$</b>
Outstanding at beginning of period / year	<b>281,798</b>	<b>1.68</b>	—	—
Granted	<b>63,500</b>	<b>4.46</b>	285,744	1.68
Forfeited/Cancelled	<b>(69,458)</b>	<b>1.68</b>	(3,946)	1.68
Exercised	<b>(1,028)</b>	<b>1.68</b>	—	—
Outstanding at end of period / year	<b>278,758</b>	<b>2.31</b>	281,798	1.68
Option exercisable at end of period / year	<b>145,254</b>	<b>2.19</b>	48,765	1.68

The weighted average remaining contractual term of options exercisable as at June 30, 2018 was 9.0 years.

The weighted average grant-date fair value related to the equity instruments granted during the three-month period ended June 30, 2018 amounted to approximately \$38 per option, which represents the fair value of the equity options granted by LXR International. The stock-based compensation expense (excluding Directors compensation described below in the Deferred share unit plan section) is recorded in the consolidated statements of loss and comprehensive loss in selling, general and administrative expenses and credited to additional paid-in capital. The stock-based compensation expense for the three-month and six-month periods ended on June 30, 2018 amounted to \$18,305 and \$133,268 respectively (\$247,439 and \$735,975 for the three-month and six-month periods ended June 30, 2017).

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

For the three-month and six-month periods ended June 30, 2018 and 2017

Unaudited

As at June 30, 2018, the total remaining unrecognized compensation expense related to non-vested stock options amounted to \$940,237 (\$1,073,504 as at December 31, 2017), which will be recognized over the weighted average remaining requisite service period of 3 years.

**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 subject to the approval of the Toronto Stock Exchange.

As at June 30, 2018, the Company recognized a compensation expense of \$40,328 for its deferred share unit plan under stock-based compensation expense. The total DSUs granted to directors as at June 30, 2018 amount to 53,530 (2017 – 30,304). As at June 30, 2018, 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 \$92,313 through stock-based compensation expense. The outstanding DSUs are presented as other liabilities in the consolidated statements of financial position.

**10. Earnings (loss) per share (“EPS”)**

For the three-month and six-month periods ended on June 30, 2018, as a result of the net loss during these periods, the warrants and stock-based awards did not impact diluted EPS because they are anti-dilutive.

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

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

	For the three-month period ended June 30		For the six-month period ended June 30	
	2018	2017	2018	2017
	\$	\$	\$	\$
Wages, salaries and employee benefits	<b>4,798,707</b>	1,802,496	<b>9,913,492</b>	3,368,664
Stock-based compensation	<b>(74,008)</b>	247,439	<b>14,498</b>	735,975
Head office rent expense	<b>102,333</b>	31,498	<b>163,227</b>	63,826
Store-related opening and closing costs	<b>1,076,158</b>	43,140	<b>1,076,158</b>	67,004
Bad debt	<b>769,121</b>	—	<b>803,491</b>	—
Other	<b>1,594,455</b>	747,944	<b>2,566,627</b>	1,219,675
	<b>8,266,766</b>	2,872,517	<b>14,537,493</b>	5,455,144

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

For the three-month and six-month periods ended June 30, 2018 and 2017

Unaudited

**12. 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 European Union. The following table summarizes revenue by geography for the period ended:

	For the three-month period ended June 30		For the six-month period ended June 30	
	2018	2017	2018	2017
	\$	\$	\$	\$
Canada	988,621	1,527,343	2,098,597	2,821,030
United States	8,293,176	4,658,939	15,979,968	8,809,788
United Kingdom	130,812	0	290,707	0
European Union	527,405	988,441	1,543,256	1,689,867
	<b>9,940,014</b>	<b>7,174,723</b>	<b>19,912,528</b>	<b>13,320,685</b>

**13. Subsequent event**

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