

LXRandCo Inc.

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

Second Quarter – Three-Month and Six-Month Periods Ended June 30, 2019

The following management's discussions and analysis ("MD&A") is prepared as of August 13, 2019, and is intended to assist readers in understanding the financial performance and financial condition of LXRandCo, Inc. (together with its consolidated subsidiaries, referred to herein as "LXRandCo" or the "Company"). This MD&A should be read in conjunction with the unaudited interim condensed consolidated financial statements of LXRandCo for the three-month and six-month periods ended June 30, 2019, and the MD&A for the year ended December 31, 2018. As a cost-reduction measure, the accompanying interim condensed consolidated financial statements have not been reviewed by the Company's auditors.

Basis of Presentation

The interim condensed consolidated financial statements of LXRandCo have been prepared in accordance with International Financial Reporting Standards ("IFRS"). All amounts are presented in Canadian dollars, unless otherwise stated. LXRandCo's fiscal year is ending December 31.

The consolidated financial statements and notes thereto for the three-month and six-month periods ended June 30, 2019, and this MD&A were approved by the Board of Directors on August 13, 2019.

Non-IFRS Measures

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

Caution Regarding Forward-Looking Statements

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

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

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

Readers are cautioned not to place undue reliance on forward-looking statements, as there can be no assurance that the future circumstances, outcomes or results anticipated or implied by such forward-looking statements will occur or that plans, intentions or expectations upon which the forward-looking statements are based will occur. By their nature, forward-looking statements involve known and unknown risks and uncertainties and other factors that could cause actual results to differ materially from those contemplated by such statements. Factors that could cause such differences include, but are not limited to, those factors described under the headings “Risk Factors” and “Management’s Discussion and Analysis of LXR – Risk Factors” in LXRandCo’s Annual Information Form dated April 1, 2019 (the “Annual Information Form”), and as described from time to time in the reports and disclosure documents filed by the Company with the Canadian securities regulatory agencies and commissions. Such list of risk factors is not exhaustive of the factors that may impact the forward-looking statements. These and other factors should be considered carefully, and readers should not place undue reliance on the forward-looking statements in this MD&A. As a result of the foregoing and other factors, there can be no assurance that actual results will be consistent with these forward-looking statements.

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

Overview

LXRandCo is a North American omni-channel retailer of branded vintage luxury handbags and accessories. LXRandCo sources and authenticates high-quality pre-owned products and sells them through: a retail network of “shop-in-shop” stores located primarily in major department stores in Canada and the United States; wholesale operations primarily in the United States; and its own e-commerce website, www.lxrco.com, as well as the e-commerce platforms of its retail partners. LXRandCo offers pre-owned products from iconic brands such as Hermès, Louis Vuitton, Gucci and Chanel, among others, at attractive prices and seeks to appeal to the aspirational lifestyle needs of women of all ages. As at June 30, 2019, LXRandCo’s retail network consisted of 84 stores with 76 in the United States and eight in Canada. LXRandCo has offices in Montréal, Canada, and Tokyo, Japan.

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

History

LXRandCo was founded in 2010 as a reseller of pre-owned branded luxury products primarily through wholesale channels. In 2013, the Company launched its e-commerce business and later that same year launched its first retail presence in Beverly Hills.

Thereafter, recognizing the opportunity to position itself uniquely in the vintage luxury landscape by establishing a broad retail presence, LXRandCo began expanding its store network and transitioning to a capital efficient “shop-in-shop” model under which it partnered with premier mid-tier department store and off-price retailers. LXRandCo provides retailers with a compelling value proposition by offering the world’s most coveted brands, to which they would not otherwise have access, at price points that are accessible to their customers. Typically, the LXRandCo offering drives increased foot traffic and repeat customers while delivering significant above-average revenue productivity as compared to their total store productivity. In 2014 and 2015, the Company established partnerships with a number of department stores and by the end of 2015 had expanded to 15 locations.

By the end of 2016, prior to the Company going public in 2017, LXRandCo had grown its retail network to 46 stores (32 in the United States, eight in Canada and six in Germany). Total revenue for 2016 was \$21.9 million, with a gross profit margin in excess of 30% and the Company profitable on an adjusted EBITDA basis.

In 2017, in an effort to meet the considerable demand from retail partners for its “shop-in-shop” locations, the Company embarked on an accelerated growth plan. In June 2017, LXRandCo raised \$25 million in gross proceeds through a public offering of shares and became a publicly traded company on the Toronto Stock Exchange.

Challenges Presented by Aggressive Growth Strategy

In 2017, LXRandCo opened 90 stores, nearly all in the second half of the year, essentially tripling the size of the retail network to 131 by year-end and substantially expanding its network into Europe. The rapid pace of growth in store count and international expansion placed a significant burden on corporate resources and had a significantly negative impact on gross margin and corporate costs. This rapid expansion of the retail store network eroded profitability and resulted in a substantial use of cash from operating activities. Several management decisions over this period stressed the Company operationally and financially. Specifically:

1. The Company misjudged its ability to manage growth and to implement an optimal international management structure, and to strike financially sound retail partner arrangements at scale;

2. The accelerated expansion of the retail network resulted in substantially outsized store-related selling, general and administrative expenses and corporate cost structure, resulting in an inefficient use of cash to fund operating activities;
3. To satisfy retail partner demand, several locations of new stores were driven by retail partner preferences as opposed to LXR's own strategic and financial rationale; and
4. The opening and operation of retail stores in Europe, which came with significantly higher costs than those in North America, lacked the size and scale thus requiring significantly more management attention than was otherwise available.

While revenue grew with the expansion of the retail store network, gross profit margin was negatively impacted as was selling, general and administrative, and corporate costs, which materially increased. In the second quarter of 2018, gross profit margin declined to 21% of revenue and selling, general and administrative expenses had increased to 70% percent of sales.

Appointment of Seasoned Senior Retail Management and Implementation of Strategic Plan

Recognizing LXRandCo's need for greater operating discipline and experienced retail operational and managerial experience, in May 2018, LXRandCo's Board of Directors appointed an existing Company Director and experienced Retail Executive, Steven Goldsmith, as President and Chief Executive Officer, bringing 30 years of retail operations experience to the Company. Steven Goldsmith undertook a comprehensive review of the Company and formulated the development and implementation of a business strategy focused on prudent and focused revenue growth, margin expansion and a priority on sustainable cash flow generation.

Management believes that over time, the successful execution of this renewed and more focused strategy will enable the Company to realize its true potential and drive long-term value for shareholders.

Strategic Plan: Realizing the Full Potential of LXRandCo

The key components of LXRandCo's strategic plan are:

1. Refocusing of the Retail Store Network for Increased Profitability and Cash Contribution – In 2019, LXRandCo is refocusing its physical retail network presence with strategic partners located in Canada and the United States and plans, over time, to establish a retail presence in the 30 largest designated market areas (DMAs), which represent more than half the combined population of both countries.

2. Refined Business Model – LXRandCo has evolved its partner model such that it is now focused on increasing store contribution margin to the Company, which drives retail partner arrangements. The LXRandCo retail partner model now enables a spectrum of contractual arrangements with the Company's retail partners to optimize contribution margin to LXRandCo across a wide variety of scenarios. The new LXRandCo retail partner model is designed with the objective of enabling the Company to operate profitably and sustainably with each partner.

3. Focused Product Offering – LXRandCo streamlined its product offering solely to vintage branded luxury women's handbags and accessories, which is the Company's core competency and typically recognized as the customer's primary entry point to luxury brands. This segment typically generates higher gross margins than men's accessories, fine jewelry, apparel and other ancillary products.

4. Margin Expansion – In addition to the anticipated benefits to gross margin from the increased geographical and product focus, LXRandCo expects gross margin to benefit from:

- Increased e-commerce and wholesale sales over both the short- and medium-term; and
- More efficient logistics and a more disciplined inventory purchasing approach.

5. *Cost Management* – In addition to cost savings realized by the closure of the European business, the Company has undertaken a comprehensive cost-reduction plan to bring Company-wide selling, general and administrative expenses in line with the revised revenue growth trajectory. LXRandCo has reduced its corporate headcount and implemented rigorous cost controls throughout the organization. Overall cost management remains a top priority for management and the Company is continuing to pursue further cost reduction initiatives.

6. *Customer Engagement* – LXRandCo is increasing its focus and attention on serving customers across the multiple channels in which the Company engages in. Specifically, the Company intends to intensify its efforts to grow its significantly underpenetrated e-commerce opportunity. Having leveraged its first-mover advantage to become the only vintage luxury handbag retailer with a national physical retail network, LXRandCo intends to invest significantly in the medium-term in its online customer acquisition for its own web property, including:

- Increasing investment in search engine optimization, and
- Implementing new initiatives in marketing and customer retention.

LXRandCo is also focusing on driving incremental business through its retail partners' e-commerce platforms by better leveraging their digital strategies, as well as expand its digital reach through the addition of new online retail partners.

The Company will also pursue new growth initiatives for the wholesale component of its retail partner model, which is an established channel with significant opportunity. Wholesale arrangements enable LXRandCo to supply its goods to stores for which a license agreement is not economically feasible, as well as to test the market potential of its product offering in new geographic areas and with potential new retail partners.

On the product sourcing side, the Company is also targeting to improve gross margin efficiencies by expanding its direct-from-consumer purchasing program, such that a significantly larger proportion of its customer base will be able to sell and trade-in their own vintage luxury handbags and accessories to LXRandCo.

Financial Results Benefiting from Initial Success of Strategic Plan

As at June 30, 2019, management's cost reduction measures resulted in SG&A expenses as a percentage of net revenue improving to 47% for the second quarter of 2019 compared to 57% for the first quarter of 2019.

Outlook: Continued Focus on Disciplined Growth, Expanded Margins and Cash Flow Generation

Management believes that the Company occupies a differentiated position in the North American market as the only vintage luxury handbag and accessory retailer with a large, national physical retail network and a robust e-commerce platform. As a result, LXRandCo has a unique opportunity to not only grow its retail store network but also leverage its physical retail presence and retail partner relationships to significantly grow its underpenetrated e-commerce business.

In August 2018, LXRandCo's Board of Directors, in parallel with the implementation of the Company's updated strategic plan, formed a special committee of independent directors to identify and evaluate a broad range of strategic and financing alternatives available to the Company to unlock the value of LXRandCo's unique omni-channel platform.

Following a six-month review process, on March 4, 2019, the Company completed a non-brokered private placement with Gibraltar & Company, Inc., Gibraltar Brands, Inc. and Gibraltar Ventures Fund One Limited Partnership, which are insiders or affiliates of insiders of the Company, and Star Orange Enterprise Pte. Ltd. (an affiliate of the Rattha Group), for the sale of an aggregate of 12,500,000 Class B Shares in the capital of the Company at a price of \$0.40 per share for gross proceeds of CAD\$5,000,000. The net proceeds of the private placement were to be used to fund the execution of LXRandCo's strategic plan. Completion of the private placement concluded the mandate of the Company's special committee of independent directors which unanimously recommended the Private Placement.

Having made good progress on its business strategy in the second half of 2018 and first two quarters of 2019, management is continuing to focus on executing its strategic plan throughout the balance of 2019.

Where appropriate, the Company may accelerate growth by pursuing acquisitions that complement its strategic initiatives. In the near term, LXRandCo will consider opportunities that augment its e-commerce capability and diversify its sources of supply. In the longer term, LXRandCo may consider adding new product categories to its product offering or alternative and complementary distribution channels through selective acquisitions.

Discontinued Operations

During the year ended December 31, 2018, the Company ceased the operations of its European-based subsidiaries, LXR&Co Germany GmbH, LXR&Co UK Limited, and LXRandCo Netherlands B.V. As a result of the closure of its European stores, the results of the European-based subsidiaries have been reclassified and presented separately as discontinued operations in the consolidated statements of loss and comprehensive loss and the consolidated statements of cash flows. Comparative periods have also been reclassified.

On June 5, 2019, LXRandCo Netherlands B.V. was dissolved, and on June 18, 2019, LXR&Co UK Limited was dissolved. Investments in these companies were derecognized in the parent company and a loss of \$19,542 on the disposition of subsidiaries was recognized in the consolidated statements of loss and comprehensive loss.

The net loss from discontinued operations is detailed as follows:

| | For the three-month period ended June 30, | | For the six-month period ended June 30 | |
|-----------------------------------------------|----------------------------------------------|-------------|-------------------------------------------|-------------|
| | 2019 \$ | 2018 \$ | 2019 \$ | 2018 \$ |
| Net revenue | - | 653,447 | - | 1,833,963 |
| Cost of sales | - | (512,697) | - | (1,348,040) |
| Gross profit | - | 140,750 | - | 485,923 |
| Selling, general, and administrative expenses | (30,909) | (1,796,259) | (38,185) | (2,865,887) |
| Loss from operating activities | (30,909) | (1,655,509) | (38,185) | (2,379,964) |
| Other expenses | 513 | 1,130 | 168 | (33) |
| Net loss from discontinued operations | (30,396) | (1,654,379) | (38,017) | (2,379,997) |
| Loss per share from discontinued operations | | | | |
| Basic and diluted | (0.00) | (0.12) | (0.00) | (0.18) |

There were no income tax effects related to discontinued operations for any of the three-month and six-month periods ended June 30, 2019 and 2018.

Financial and Operating Highlights

Refer to the section entitled “How Management Assesses the Performance of LXRandCo” in this MD&A for the definition of items disclosed below and, when applicable, to the section entitled “Selected Consolidated Financial Information” for a reconciliation of non-IFRS measures with the most directly comparable IFRS measure. Unless otherwise stated, the results below relate to the continuing operations of the Company.

Overview of Results for the Three-Month Period Ended June 30, 2019, Compared to the Three-Month Period Ended June 30, 2018

Selected financial highlights include the following:

- The retail network at June 30, 2019, had 22% fewer stores and consisted of 84 stores compared to 107 (excluding 12 European stores closed in 2018 and subsequently classified as discontinued operations). This decrease of 23 stores is in line with the Company's strategic plan to establish a presence in the 30 largest DMAs in Canada and the United States. The decrease is mainly the result of the closure of four stores during the fourth quarter of 2018, as well as the transition of 12 retail stores to a wholesale arrangement as part of the Company's retail partner model optimization strategy.
- Despite the 22% decrease in the number of retail stores, net revenue was only 8% lower at \$8.6 million compared with \$9.3 million, with average store sales increasing by 13%.
- Gross profit increased 53% to \$2.9 million from \$1.9 million.
- Gross profit margin increased to 33% compared to 20%.
- Selling, general and administrative expenses decreased 38% to \$4.0 million, or 47% of net revenue, from \$6.5 million, or 70% of net revenue.
- Net loss improved to \$2.2 million from \$9.0 million.
- Adjusted EBITDA (a non-IFRS measure) improved to \$(1.2) million from \$(4.8) million.
- Adjusted Net Loss (a non-IFRS measure) improved \$1.6 million from \$5.7 million.
- Cash used in operations was \$2.3 million compared with \$0.7 million.
- Cash balance at the end of the quarter was \$3.5 million.

Overview of Results for the Six-Month Period Ended June 30, 2019, Compared to the Six-Month Period Ended June 30, 2018

Select financial highlights include the following:

- Despite the 22% decrease in the number of retail stores as at June 30, 2019 (as discussed above for three-month period), net revenue was only 4% lower at \$17.3 million compared with \$18.1 million, with average sales per store increasing by 17%.
- Gross profit increased 28% to \$5.0 million from \$3.9 million. Excluding the impact of the two sample sales to liquidate slow-moving inventory in the first quarter of 2019, normalized gross profit would be \$5.3 million.
- Gross profit margin increased to 29% compared to 21%. Excluding the impact of the two sample sales to liquidate slow-moving inventory in the first quarter of 2019, normalized gross margin is 33%.
- Selling, general and administrative expenses decreased 24% to \$9.0 million, or 52% of net sales, from \$11.8 million, or 65% of net sales.
- Net loss improved to \$6.0 million from \$12.6 million.
- Adjusted EBITDA (a non-IFRS measure) improved to \$(3.4) million from \$(7.9) million.

- Adjusted Net Loss (a non-IFRS measure) improved to \$4.2 million from \$9.3 million.
- Cash used in operations improved to \$3.3 million from \$8.7 million.

Factors Affecting Results from Operations

Management believes that the performance and future success of LXRandCo depend on a number of factors that present significant opportunities. These factors are also subject to a number of risks and challenges, some of which are discussed under the headings “Risk Factors” and “Management’s Discussion and Analysis of LXR – Risk Factors” in LXRandCo’s Annual Information Form dated April 1, 2019 (the “Annual Information Form”), and as described from time to time in the reports and disclosure documents filed by the Company with the Canadian securities regulatory agencies and commissions from time to time.

LXRandCo Brand

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

Product Mix and Merchandising Strategy

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

Sourcing and Authentication

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

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

Retail Network Expansion

LXRandCo will continue to prudently expand its retail network across Canada and the United States. LXRandCo's ability to successfully expand its retail network will depend on numerous factors, including its ability to minimize closures of existing stores, securing new retail partners and expanding existing partnerships in targeted geographies and generating the anticipated financial performance for LXRandCo and its retail partners. Management anticipates leveraging the success of its current retail partner relationships into new store openings and developing new retail partner relationships through outbound business development effort.

Retail Network Productivity and Scalability

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

E-Commerce Growth

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

Consumer Trends

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

Seasonality

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

Based on the net revenue generated by the 40 stores open for a full year ended December 31, 2018, the quarterly share of annual net revenue for the year was as follows:

| | |
|-----------------------------|------|
| First fiscal quarter | 23% |
| Second fiscal quarter | 25% |
| Third fiscal quarter | 22% |
| Fourth fiscal quarter | 30% |
| Yearly total | 100% |

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

Competition

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

Foreign Exchange

LXRandCo reports in Canadian dollars. The majority of LXRandCo's net revenue is derived in U.S. dollars while the vast majority of its cost of goods sold is denominated in Japanese yens. Future fluctuations in the exchange rate of the Canadian dollar versus the U.S. dollar, and the Canadian dollar versus the Japanese yen could materially affect LXRandCo's gross profit margins and operating results. At present, LXRandCo is not using any hedging strategies in a material way to mitigate risks associated with forecasted Japanese yen merchandise purchases sold in Canada and the United States.

How Management Assesses the Performance of LXRandCo

In assessing the performance of LXRandCo's business, management considers a variety of financial and operating measures that affect its operating results. LXRandCo conducts its activities in a single industry segment as an omni-channel retailer. The single operating segment includes all sales channels accessed by LXRandCo's customers, including sales through LXRandCo's retail network, wholesale operations and online through its website and partners' websites.

Net Revenue

Net revenue primarily reflects the sale of merchandise, net of discounts, rebates, estimated returns and sales taxes. Net revenue from retail stores is recognized at the point of sale, when the merchandise is delivered to the customer.

Net revenue from wholesale and e-commerce sales is recognized when merchandise is delivered to the customer.

Gross Profit

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

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

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

Net Loss

Net loss reflects gross profit less SG&A expenses, amortization and depreciation expenses, and impairment of goodwill to arrive at results from operating activities. It then further reflects the deduction of finance costs, foreign exchange loss (gain), loss on disposition of assets, and loss on disposition of subsidiaries to arrive at loss before income taxes from which income tax expense is deducted to arrive at net loss.

Adjusted Net Loss

Adjusted Net Loss is a non-IFRS measure that management believes is a useful measure of LXRandCo's performance, as it provides a more relevant picture of results by excluding the effects of expenses that are not reflective of underlying business performance, and other non-cash or non-recurring expenses. Management uses Adjusted Net Loss to facilitate a comparison of its performance on a consistent basis from period to period and to provide for a more complete understanding of factors and trends affecting LXRandCo's business. Adjusted Net Loss is reconciled to Net Loss, its nearest GAAP measure, on page 16 for expenses that management considers to be not representative of LXRandCo's ongoing operating performance, net of related tax effects.

EBITDA

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

Adjusted EBITDA

Adjusted EBITDA is a non-IFRS measure that management believes is a useful measure of operating performance in that it excludes the effects of financing and investing activities from operating results by removing the effects of amortization and depreciation expenses, finance costs, expenses that are not reflective of underlying business performance, and other non-cash or non-recurring expenses. Management uses Adjusted EBITDA to facilitate a comparison of its operating performance on a consistent basis from period to period and to provide for a more complete understanding of factors and trends affecting LXRandCo's business. Adjusted EBITDA is reconciled to Net Loss, its nearest GAAP measure, on page 16 for expenses that management considers to be not representative of LXRandCo's ongoing operating performance. Because Adjusted EBITDA excludes non-cash items, management believes that it is less susceptible to variances in actual performance resulting from depreciation, amortization and other non-cash charges.

Selected Consolidated Financial Information

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

LXRandCo, Inc.

Condensed consolidated statements of loss

(in Canadian dollars, unaudited)

| | For the three-month period ended June 30, | | For the six-month period ended June 30, | |
|----------------------------------------------|----------------------------------------------|--------------|--------------------------------------------|--------------|
| | 2019 | 2018 | 2019 | 2018 |
| Net revenue | 8,558,435 | 9,286,767 | 17,314,498 | 18,078,765 |
| Cost of sales | 5,697,725 | 7,432,632 | 12,276,123 | 14,210,982 |
| Gross profit | 2,860,710 | 1,854,135 | 5,038,375 | 3,867,783 |
| Operating expenses | | | | |
| Selling, general and administrative expenses | 4,020,531 | 6,538,602 | 8,995,432 | 11,761,569 |
| Amortization and depreciation expenses | 289,261 | 361,957 | 507,704 | 608,927 |
| Impairment of goodwill | — | 3,683,987 | — | 3,683,987 |
| Results from operating activities | (1,449,082) | (8,730,411) | (4,464,761) | (12,186,700) |
| Other income and expenses | | | | |
| Finance costs | 112,939 | 496,959 | 226,280 | 774,374 |
| Foreign exchange loss (gain) | 455,982 | (224,860) | 1,146,650 | (401,779) |
| Loss on disposition of assets | 132,777 | — | 132,777 | — |
| Loss on disposition of subsidiaries | 19,542 | — | 19,542 | — |
| Loss before income taxes | (2,170,322) | (9,002,510) | (5,990,010) | (12,559,295) |
| Income tax expense | | | | |
| Current | 8,338 | 38,661 | 48,203 | 38,661 |
| Deferred | — | — | — | 44,000 |
| | 8,338 | 38,661 | 48,203 | 82,661 |
| Net loss from continuing operations | (2,178,660) | (9,041,171) | (6,038,213) | (12,641,956) |
| Net loss from discontinued operations | (30,396) | (1,654,379) | (38,017) | (2,379,997) |
| Net loss for the period | (2,209,056) | (10,695,550) | (6,076,230) | (15,021,953) |

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

| | For the three-month period ended June 30, | | For the six-month period ended June 30, | |
|---------------------------------------------------------------------|----------------------------------------------|--------------------|--------------------------------------------|---------------------|
| | 2019 | 2018 | 2019 | 2018 |
| <u>Reconciliation of net loss to Adjusted EBITDA</u> | | | | |
| Net loss | (2,209,056) | (10,695,550) | (6,076,230) | (15,021,953) |
| Add: Amortization and depreciation expenses | 289,261 | 361,957 | 507,704 | 608,927 |
| Add: Finance costs | 112,939 | 496,959 | 226,280 | 774,374 |
| Add: Income tax expense | 8,338 | 38,661 | 48,203 | 82,661 |
| EBITDA | (1,798,518) | (9,797,973) | (5,294,043) | (13,555,991) |
| <u>Adjustments to EBITDA:</u> | | | | |
| Foreign exchange loss (gain) | 455,982 | (224,860) | 1,146,650 | (401,779) |
| Loss on disposition of assets | 132,777 | — | 132,777 | — |
| Impairment of goodwill | — | 3,683,987 | — | 3,683,987 |
| Stock-based compensation expense | (69,953) | (74,008) | 9,420 | 14,498 |
| Loss on disposition of subsidiaries | 19,542 | — | 19,542 | — |
| Professional fees related to strategic review and private placement | — | — | 474,853 | — |
| Store closing costs | 43,603 | — | 73,921 | — |
| Loss from discontinued operations | 30,396 | 1,654,379 | 38,017 | 2,379,997 |
| Adjusted EBITDA | (1,186,171) | (4,758,475) | (3,398,863) | (7,879,288) |
| Adjusted EBITDA as a percentage of net revenue | (13.9%) | (51.2%) | (19.6%) | (43.6%) |
| <u>Reconciliation of Net Loss to Adjusted Net Loss</u> | | | | |
| Net loss | (2,209,056) | (10,695,550) | (6,076,230) | (15,021,953) |
| <u>Adjustments to net income:</u> | | | | |
| Foreign exchange loss (gain) | 455,982 | (224,860) | 1,146,650 | (401,779) |
| Impairment of goodwill | — | 3,683,987 | — | 3,683,987 |
| Loss on disposition of assets | 132,777 | — | 132,777 | — |
| Stock-based compensation expense | (69,953) | (74,008) | 9,420 | 14,498 |
| Loss on disposition of subsidiaries | 19,542 | — | 19,542 | — |
| Professional fees related to strategic review and private placement | — | — | 474,853 | — |
| Store closing cost | 43,603 | — | 73,921 | — |
| Loss from discontinued operations | 30,396 | 1,654,379 | 38,017 | 2,379,997 |
| Adjusted Net Loss | (1,596,708) | (5,656,052) | (4,181,050) | (9,345,250) |
| Adjusted Net Loss as a percentage of net revenue | (18.7%) | (60.9%) | (24.1%) | (51.7%) |

The following table provides selected retail network data from continuing and discontinued operations for the periods indicated:

| Selected retail network data | For the three-month period ended June 30, | | For the six-month period ended June 30, | |
|---------------------------------------|-------------------------------------------|------------|-----------------------------------------|------------|
| | 2019 | 2018 | 2019 | 2018 |
| Number of stores, beginning of period | 85 | 133 | 86 | 131 |
| Store openings | 0 | 16 | 0 | 23 |
| Store closures | 1 | 30 | 2 | 35 |
| Number of stores, end of period | 84 | 119 | 84 | 119 |

Results of Operations

Analysis of Results for the Three-Month Period Ended June 30, 2019, Compared to the Three-Month Period Ended June 30, 2018

The following section provides an overview of LXRandCo's financial performance during the three-month period ended June 30, 2019, compared to the three-month period ended June 30, 2018.

Net Revenue

Despite 22% fewer stores, net revenue decreased only 8% to \$8.6 million in the three-month period ended June 30, 2019, from \$9.3 million in the three-month period ended June 30, 2018. LXRandCo's retail network consisted of 84 stores as at June 30, 2019, compared to 107 stores as at June 30, 2018 (excluding from the 2018 comparative are 12 European stores closed in 2018 and subsequently classified as discontinued operations). The opening and closings were within the context of the Company's strategic plan, including its intention to prudently expand its retail network in the largest market areas in the United States and Canada and implement a more profitable retail partner model across its network.

Gross Profit

Gross profit increased 53% to \$2.9 million from \$1.9 million. Gross profit margin was 33% compared to 20%. The three-month period ended June 30, 2019, reflects an improvement in gross margin from the previous year as a result of reduced licensing fees with two major retail partners, a decrease in inventory obsolescence provisions due to the liquidation of slow-moving inventory during sample sales that took place in the first quarter of 2019, in addition to a significant reduction in inventory shrinkage and freight expense.

SG&A Expenses

SG&A expenses were \$4.0 million in the three-month period ended June 30, 2019, compared to \$6.5 million in the three-month period ended June 30, 2018. The improvement in SG&A expenses is mainly the result of operating fewer stores throughout the period resulting in decreased store and corporate headcount in addition to the store closure costs that negatively impacted 2018 results.

The number of employees decreased to 161 in the three-month period ended June 30, 2019, compared to 399 as at June 30, 2018. The significant decrease is mainly the result of the discontinued operations in Europe and the smaller retail network.

Net Loss

Net loss improved to \$2.2 million in the three-month period ended June 30, 2019, from a net loss of \$9.0 million in the three-month period ended June 30, 2018.

Adjusted Net Loss

Adjusted net loss improved to \$1.6 million in the three-month period ended June 30, 2019, from an adjusted net loss of \$5.7 million in the three-month period ended June 30, 2018.

Adjusted EBITDA

Adjusted EBITDA improved to \$(1.2) million in the three-month period ended June 30, 2019, from \$(4.8) million in the three-month period ended June 30, 2018.

Analysis of Results for the Six-Month Period Ended June 30, 2019, Compared to the Six-Month Period Ended June 30, 2018

The following section provides an overview of LXRandCo's financial performance during the three-month period ended June 30, 2019, compared to the three-month period ended June 30, 2018.

Net Revenue

Despite 22% fewer stores, net revenue decreased only 4% to \$17.3 million in the six-month period ended June 30, 2019, from \$18.1 million in the six-month period ended June 30, 2018. LXRandCo's retail network consisted of 84 stores as at June 30, 2019, compared to 107 stores as at June 30, 2018 (excluding from the 2018 comparative are 12 European stores closed in 2018 and subsequently classified as discontinued operations). The opening and closings were within the context of the Company's strategic plan, including its intention to prudently expand its retail network in the largest market areas in the United States and Canada and implement a more profitable retail partner model across its network.

Gross Profit

Gross profit increased to \$5.0 million from \$3.9 million. Gross profit margin was 29% compared to 21%. The six-month period ended June 30, 2019, reflects an improvement in gross margin from the previous year as a result of reduced licensing fees with two major retail partners, a decrease in inventory obsolescence provisions due to the liquidation of slow-moving inventory during sample sales that took place in the first quarter of 2019, in addition to a significant reduction in inventory shrinkage and freight expense. Excluding the impact of the two sample sales to liquidate slow-moving inventory in the first quarter of 2019, normalized gross profit and gross margin would be \$5.3 million and 33% respectively.

SG&A Expenses

SG&A expenses were \$9.0 million in the six-month period ended June 30, 2019, compared to \$11.8 million in the six-month period ended June 30, 2018. The improvement in SG&A expenses is mainly the result of operating fewer stores throughout the period resulting in decreased store and corporate headcount in addition to the store closure costs that negatively impacted 2018 results.

The number of employees decreased to 161 in the six-month period ended June 30, 2019, compared to 399 as at June 30, 2018. The significant decrease is mainly the result of the discontinued operations in Europe and the smaller retail network.

Net Loss

Net loss improved to \$6.0 million in the six-month period ended June 30, 2019, from a net loss of \$12.6 million in the six-month period ended June 30, 2018.

Adjusted Net Loss

Adjusted net loss improved to \$4.2 million in the six-month period ended June 30, 2019, from an adjusted net loss of \$9.3 million in the six-month period ended June 30, 2018.

Adjusted EBITDA

Adjusted EBITDA improved to \$(3.4) million in the six-month period ended June 30, 2019, from \$(7.9) million in the six-month period ended June 30, 2018.

Selected Quarterly Financial Information

The following table summarizes the results of LXRandCo for the most recently completed quarters for which financial statements have been prepared since the Company has been a reporting issuer. This unaudited quarterly information has been prepared in accordance with IFRS. Due to the Company's recent change in strategy and factors such as seasonality, the results of operations for any quarter are not necessarily indicative of the results of operations for the year and it is not possible to discern any trends from the quarterly financial information that is available.

| | For the Quarter Ended | | | | | | | |
|-----------------------------------------|-----------------------|-------------|--------------|-------------|--------------|-------------|--------------|-------------|
| | 2019 | | 2018 | | | | 2017 | |
| | Q2 | Q1 | Q4 | Q3 | Q2 | Q1 | Q4 | Q3 |
| Consolidated statements of loss: | | | | | | | | |
| Net revenue | \$8,558,435 | \$8,756,063 | \$10,864,627 | \$9,945,707 | \$9,286,767 | \$8,791,998 | \$13,582,409 | \$7,326,078 |
| Loss before income taxes | (2,170,321) | (3,819,691) | (3,789,714) | (3,093,027) | (9,002,510) | (3,556,785) | (3,455,060) | (1,410,351) |
| Net loss | (2,209,055) | (3,859,556) | (3,657,520) | (3,138,142) | (10,695,550) | (3,600,785) | (3,786,524) | (1,219,430) |
| Net loss per share | | | | | | | | |
| Basic | (0.08) | (0.21) | (0.28) | (0.21) | (0.75) | (0.28) | (0.38) | (0.20) |
| Fully diluted | (0.08) | (0.21) | (0.28) | (0.21) | (0.75) | (0.28) | (0.38) | (0.20) |

Liquidity and Capital Resources

Overview

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

Working Capital

Working capital includes cash, accounts receivable, taxes receivable, inventory, prepaid expenses and deposits, accounts payable and accrued liabilities, deferred revenue, sales tax payable, income tax payable and the current portion of long-term debt.

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

Historically, LXRandCo's main sources of liquidity have been from cash on hand, cash generated from operating activities, the sale of equity securities and borrowings under the Company's revolving credit facilities. As at June 30, 2019, LXRandCo's working capital was \$4.2 million.

Credit Facilities and Other Indebtedness

The following summarizes the indebtedness incurred by LXRandCo as at June 30, 2019. This summary should be read in conjunction with the interim condensed consolidated financial statements of the Company for the three-month and six-month period ended June 30, 2019.

Credit Facilities

On June 14, 2017, the Company entered into a credit agreement with a Canadian chartered bank, which provided 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 (3.95% as at June 30, 2019, and 3.95% as at December 31, 2018) or U.S. base rate if denominated in U.S. dollars (5.50% as at June 30, 2019, and 5.50% as at December 31, 2018) plus an applicable margin of 0.50%, or (b) the banker's acceptance rate (1.96% as at June 30, 2019, and 2.25% as at December 31, 2018), plus an applicable margin of 2.00% or LIBOR (2.40% as at June 30, 2019, and 2.52% as at December 31, 2018) plus an applicable margin of 2.00%, at the Company's option. A commitment fee of 0.25% of the unused portion of the Line of Credit is also due. The Line of Credit matures on June 14, 2020.

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

The Line of Credit is collateralized by substantially all assets of the Company and its subsidiaries. The Line of Credit requires the Company to meet certain financial and non-financial covenants, which were all met as at June 30, 2019.

Cash Flows

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

| Cash Flow Data: | For the six-month period ended June 30, | |
|-----------------------------------------------------|--------------------------------------------|------------------|
| | 2019 | 2018 |
| Cash flows used in operating activities..... | (3,336,831) | (8,740,264) |
| Cash flows used in investing activities | (16,087) | (2,894,966) |
| Cash flows provided by financing activities | 4,650,441 | 13,544,122 |
| Cash flows used by discontinued operations..... | (23,361) | (1,160,881) |
| Effect of exchange rate changes on cash..... | (60,886) | 69,846 |
| Net increase in cash during the period | 1,213,277 | 817,857 |
| Cash, beginning of period..... | 2,315,160 | 4,015,025 |
| Cash, end of period..... | 3,528,437 | 4,832,882 |

Analysis of Cash Flows for the Six-Month Period Ended June 30, 2019, Compared to the Six-Month Period Ended June 30, 2018

For the six-month period ended June 30, 2019, cash used in operating activities was \$3.3 million, compared to \$8.7 million for the six-month period ended June 30, 2018, a net decrease in use of cash of \$5.4 million. This decrease in cash used was primarily attributable to the Company focusing on sustainable cash flow generation and cost reduction measures to optimize cash used in operations, as compared to the Company's significant use of capital to fund its rapid growth in store count and international expansion in early 2018.

For the six-month period ended June 30, 2019, cash used in investing activities was almost nil compared to \$2.9 million for the six-month period ended June 30, 2018, a net decrease in the use of cash of \$2.9 million. The positive change was primarily due to less property and equipment purchased in 2019 as a result of the smaller retail network.

For the six-month period ended June 30, 2019, cash provided by financing activities was \$4.7 million compared to \$13.5 million for the six-month period ended June 30, 2018, a net decrease in cash generated of \$8.8 million. This negative change was primarily attributable to the Company's equity financing completed in February 2018.

For the six-month period ended June 30, 2019, the net increase in cash was \$1.2 million, compared to a net increase in cash of \$0.8 million for the six-month period ended June 30, 2018, which resulted in an ending cash balance on June 30, 2019, of \$3.5 million compared to \$4.8 million on June 30, 2018.

Related Party Transactions

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

| | For the three-month ended June 30, | | For the six-month ended June 30, | |
|------------------------------------------------------------------------------------------------|---------------------------------------|--------|-------------------------------------|---------|
| | 2019 | 2018 | 2019 | 2018 |
| Transactions with a commonly controlled company: | | | | |
| Rent paid to a company of which the Chief Operating Officer has an ownership interest in | 56,477 | 73,650 | 112,953 | 109,650 |

| | For the three-month ended June 30, | | For the six-month ended June 30, | |
|-----------------------------------------------------------|---------------------------------------|--------|-------------------------------------|---------|
| | 2019 | 2018 | 2019 | 2018 |
| Transactions with a Board director and shareholder | | | | |
| Legal fees | – | 93,889 | – | 106,083 |

* The Company has guaranteed the mortgage taken on the building in which the Company leases space for its head office. Such building is owned by a company of which the Chief Operating Officer has an ownership interest in.

Significant Accounting Judgments, Estimates and Assumptions

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

Critical Judgments in Applying Accounting Policies

Leases

The Company is required to make judgments and estimates that affect the measurement of right-of-use assets and liabilities in the application of IFRS 16. To determine the lease term, the Company must consider all facts and circumstances that create an economic incentive to exercise renewal options or not exercise termination options. Estimates and assumptions are required to determine the appropriate incremental borrowing rate used to measure the right-of-use assets and lease liabilities.

Key Sources of Estimation Uncertainty

Inventory valuation

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

As at June 30, 2019, the provision for inventory valuation and obsolescence amounted to \$58,398 (\$521,945 as at December 31, 2018). The decrease in this provision is mainly the result of the sample sale and winter clearance events that took place in the first half of 2019 as part of the Company’s initiatives to liquidate slow-moving inventory. As such, actual profits on these sales were recorded in the first quarter and therefore not provisioned for.

New Accounting Standards Adopted in 2019

IFRS 16 Leases (“IFRS 16”)

In January 2016, the International Accounting Standards Board (“IASB”) issued IFRS 16, which replaces IAS 17, “Leases” and related interpretations. This standard provides a single accounting model for leases, requiring the recognition of assets and liabilities for all leases and abolishing the current distinction between finance and operating

leases. Certain exemptions will apply for short-term leases and leases of low-value assets.

The Company has adopted IFRS 16, *Leases* on January 1, 2019, retrospectively with the cumulative effect of initially applying the new standard recognized on December 31, 2018, as permitted under the specific transition provisions in the standard. Comparatives have therefore not been restated and continues to be reported under IAS 17 and IFRIC 4.

IFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to the lessee accounting by removing the distinction between operating and finance lease and requiring the recognition of a right-of-use asset and a lease liability at commencement for all leases, except for short-term leases and leases of low-value assets. In contrast to lessee accounting, the requirement for lessor accounting has remained unchanged.

The associated rights-of-use assets were measured at the amount equal to the lease liability of \$956,141, adjusted by \$18,826, the prepaid lease recognized in the consolidated balance sheet as at December 31, 2018. Property and equipment increased by \$974,967 on January 1, 2019.

Risk Factors

LXRandCo is subject to a variety of financial risks in the normal course of operations including foreign exchange, interest rate, credit and liquidity risk. LXRandCo's overall risk management program and business practices seek to minimize any potential adverse effects on its consolidated financial performance. The forgoing risk factors are only a summary of certain risk factors and are qualified in their entirety by reference to, and must be read in conjunction with, the detailed information appearing under the headings "Risk Factors" and "Management's Discussion and Analysis of LXR – Risk Factors" in LXRandCo's Annual Information Form dated April 1, 2019, and as described from time to time in the reports and disclosure documents filed by the Company with the Canadian securities regulatory agencies and commissions.

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

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

Management conducted its evaluation of the Company's controls and procedures and internal control over financial reporting under the supervision of the chief executive officer and the chief financial officer. Based on that evaluation, management concluded that the Company's controls and procedures were not effective as of June 30, 2019, and identified material weaknesses. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Company's annual or interim financial statements will not be prevented or detected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those responsible for oversight of the Company's financial reporting. The following material weaknesses were identified in the design and operation of its internal controls:

- (i) Lack of integration of the Company's information technology systems and lack of access restrictions; and
- (ii) Lack of segregation of duties within accounting functions and systems

- (iii) Limited capabilities of Company's accounting software and consolidation process that involves highly manual processes
- (iv) Difficulty to retain sufficient internal accounting personnel to prepare and oversee financial statements reporting in accordance with IFRS;

Due to the Company's size and significant growth, segregation of all conflicting duties may not always be possible and may not be economically feasible and management has not been able to take steps to improve and formalize the Company's internal controls over financial reporting during the quarter ended June 30, 2019.

To remediate the material weaknesses identified in internal control over financial reporting, during the three-month period ended June 30, 2019, the Company hired additional personnel with sufficient knowledge and experience in IFRS, such as a qualified external financial reporting consultant and a financial controller to increase available resources in consolidation and financial statements reporting processes.

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

Change of Auditor

The Audit Committee of the Company's Board of Directors, along with the Chief Executive Officer and Interim Chief Financial Officer, have conducted a review of the Company's audit requirements. After careful review of the two proposals received and due consideration of all relevant factors, the Company's Board of Directors has considered and approved the appointment of PricewaterhouseCoopers LLP as auditor of the Company on May 2, 2019, which was further approved by the shareholders at the annual general meeting held on June 13, 2019.

Additional Information

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