

LXR^{AND} CO

LXRandCo, Inc.

Interim Condensed Consolidated Financial Statements

Three-month and nine-month periods ended

September 30, 2019 and 2018

LXRandCo, Inc.

Consolidated statements of financial position

(in Canadian dollars)

As at	September 30, 2019 ⁽¹⁾ \$	Unaudited December 31, 2018 \$
Assets		
Current		
Cash	2 004 827	2 315 160
Accounts receivable	1 790 280	2 040 598
Sales tax receivable	360 358	709 842
Inventory	10 621 949	10 495 985
Right of return asset	53 651	80 060
Prepaid expenses and deposits (note 3)	267 131	165 523
Total current assets	15 098 196	15 807 168
Property and equipment, net (note 3)	3 071 935	3 133 022
Intangible assets, net	253 277	462 700
Other assets	112 682	112 682
	18 536 090	19 515 572
Liabilities and shareholders' equity		
Current		
Refund liabilities	86 750	175 327
Accounts payable and accrued liabilities	5 649 662	5 629 213
Income tax payable	116 249	686 197
Deferred revenue	60 051	66 996
Sales taxes payable	44 155	—
Line of credit (note 4)	7 078 735	—
Current portion of long-term debt	15 564	59 895
Total current liabilities	13 051 166	6 617 628
Line of credit (note 4)	—	5 789 656
Long-term debt	—	13 034
Other liabilities (note 3)	1 055 617	108 916
Total liabilities	14 106 783	12 529 234
Shareholders' equity		
Share capital (note 5)	94 854 874	90 202 459
Warrants (note 5)	12 940 438	12 940 438
Contributed surplus	1 629 761	1 536 635
Accumulated other comprehensive loss	(220 527)	(1 266 958)
Deficit	(104 775 239)	(96 426 236)
Total shareholders' equity	4 429 307	6 986 338
	18 536 090	19 515 572

See accompanying notes

NOTICE

The Company's independent auditors have not performed a review of the accompanying interim condensed consolidated financial statements

⁽¹⁾ Refer to Note 3 - Changes in accounting principles for the impact of the adoption of IFRS 16, *Leases*.

On behalf of the Board:

Director
By: signed (Valerie Sorbie)

Director
By: signed (Camillo di Prata)

Consolidated statements of loss and comprehensive loss

(in Canadian dollars)

	Three-month period ended September 30,		Unaudited Nine-month period ended September 30,	
	2019 ⁽¹⁾	2018	2019 ⁽¹⁾	2018
	\$	\$	\$	\$
Net revenue (notes 6 and 10)	8 314 615	10 075 502	25 629 115	28 154 267
Cost of sales	5 707 183	7 883 710	17 983 306	22 094 692
Gross profit	2 607 432	2 191 792	7 645 809	6 059 575
Selling, general and administrative expenses (note 7)	4 011 816	4 425 971	13 007 248	16 187 540
Amortization and depreciation expenses	254 467	400 826	762 171	1 009 753
Impairment of goodwill	—	—	—	3 683 987
Loss from operating activities	(1 658 851)	(2 635 005)	(6 123 610)	(14 821 705)
Finance costs	125 764	147 940	352 044	922 314
Foreign exchange loss (gain)	(138 402)	264 474	1 008 248	(137 305)
Loss on disposition of assets	295 121	—	427 898	—
Loss on disposition of subsidiaries	363 304	—	382 846	—
Loss before income taxes	(2 304 638)	(3 047 419)	(8 294 646)	(15 606 714)
Income tax expense				
Current	6 154	1 404	54 357	40 065
Deferred	—	—	—	44 000
	6 154	1 404	54 357	84 065
Net loss from continuing operations	(2 310 792)	(3 048 823)	(8 349 003)	(15 690 779)
Net loss from discontinued operations (note 8)	—	(352 167)	—	(2 732 164)
Net loss for the period	(2 310 792)	(3 400 990)	(8 349 003)	(18 422 943)
Other comprehensive loss				
Cumulative translation adjustment	250 062	82 040	1 046 431	(18 376)
Comprehensive loss	(2 060 730)	(3 318 950)	(7 302 572)	(18 441 319)
Loss per share (notes 8 and 9)				
Total basic and fully diluted for the year	(0.09)	(0.24)	(0.35)	(1.33)
From continuing operations - basic and fully diluted	(0.09)	(0.21)	(0.35)	(1.13)
Weighted average number of shares outstanding – basic and fully diluted	26 817 328	14 317 328	23 932 713	13 887 564

⁽¹⁾ Refer to Note 3 - Changes in accounting principles for the impact of the adoption of IFRS 16, *Leases*.

See accompanying notes

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

Unaudited

	Share capital \$	Warrants \$	Contributed surplus \$	Cumulative translation adjustment \$	Deficit \$	Total shareholders' equity \$
Balance as at January 1, 2018	77 200 920	12 940 438	1 236 291	(513 405)	(74 233 337)	16 630 907
Net loss for the period	—	—	—	—	(18 422 943)	(18 422 943)
Stock-based compensation expense (note 5)	—	—	228 898	—	—	228 898
Cumulative translation adjustment	—	—	—	(18 376)	—	(18 376)
Class B common shares issued (note 5)	14 324 625	—	—	—	—	14 324 625
Equity issuance costs (note 5)	(1 373 458)	—	—	—	—	(1 373 458)
Exercise of stock-options	50 372	—	(48 645)	—	—	1 727
Balance as at September 30, 2018	90 202 459	12 940 438	1 416 544	(531 781)	(92 656 280)	11 371 380
Net loss for the period	—	—	—	—	(3 769 956)	(3 769 956)
Stock-based compensation expense (note 5)	—	—	120 091	—	—	120 091
Cumulative translation adjustment	—	—	—	(735 177)	—	(735 177)
Balance as at December 31, 2018	90 202 459	12 940 438	1 536 635	(1 266 958)	(96 426 236)	6 986 338
Net loss for the period	—	—	—	—	(8 349 003)	(8 349 003)
Stock-based compensation expense (note 5)	—	—	93 126	—	—	93 126
Cumulative translation adjustment	—	—	—	1 046 431	—	1 046 431
Class B common shares issued (note 5)	5 000 000	—	—	—	—	5 000 000
Equity issuance costs (note 5)	(347 585)	—	—	—	—	(347 585)
Balance as at September 30, 2019	94 854 874	12 940 438	1 629 761	(220 527)	(104 775 239)	4 429 307

See accompanying notes

LXRandCo, Inc.

Consolidated statements of cash flows

(in Canadian dollars)

Unaudited

Nine-month period ended September 30

2019 ⁽¹⁾

2018

\$

\$

Operating activities

Net loss from continuing operations for the year	(8 349 003)	(15 690 779)
Non-cash items:		
Depreciation of property and equipment	556 772	707 073
Amortization of intangible assets	205 399	302 680
Amortization of deferred financing costs	—	413 539
Impairment of goodwill	—	3 683 987
Stock-based compensation expense	178 229	102 315
Loss on disposition of assets	427 898	—
Loss on disposition of subsidiaries	382 846	—
Unrealized foreign exchange gain on non-monetary assets	37 211	40 000
Deferred income taxes	—	44 000
	(6 560 648)	(10 397 185)
Net change in non-cash working capital balances related to operations	429 514	2 532 971
Cash flows used in operating activities	(6 131 134)	(7 864 214)

Investing activities

Acquisitions of tangible assets	(13 883)	(1 566 836)
Acquisitions of intangible assets	—	(274 380)
Cash flows used in investing activities	(13 883)	(1 841 216)

Financing activities

Net decrease in credit facility	—	(546 839)
Net increase in line of credit	1 289 079	—
Repayment of long-term debt	(57 365)	(95 814)
Proceeds from issuance of class B common shares	5 000 000	14 324 625
Equity cost	(347 585)	(1 373 458)
Exercise of stock-options	—	1 727
Cash flows provided by financing activities	5 884 129	12 310 241
Cash flows from discontinued operations (note 8)	(26 413)	(2 335 468)
Effect of exchange rate changes on cash on operating activities	(23 032)	(39 314)

Net (decrease) increase in cash during the period

Cash, beginning of the period	2 315 160	4 015 025
Cash, end of the period	2 004 827	4 245 054

Supplementary information (as reported in operating activities)

Interest paid	184 907	317 984
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⁽¹⁾ Refer to Note 3 - Changes in accounting principles for the impact of the adoption of IFRS 16, *Leases*.

See accompanying notes

LXRandCo, Inc.

Notes to the interim condensed consolidated financial statements

(in Canadian dollars)

Three-month and nine-month periods ended September 30, 2019 and 2018

Unaudited

1. Corporate information

LXRandCo, Inc. (“LXRandCo” or the “Company”) 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 stores located in major department stores in Canada and the United States; 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 100 Adelaide Street West, Toronto, Ontario, M5H 1S3 and its operating head office is located at 7399 Blvd. St-Laurent, Montréal, Québec, Canada, H2R 2W5. The Company also maintains an office in Tokyo, Japan.

As at September 30, 2019, LXRandCo’s retail network consisted of 81 stores located as follows: 69 in the United States, and 12 in Canada. In 2018, the Company’s retail network of stores also included a presence in Europe which have since been discontinued and dissolved (see note 8).

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

2. Statement of compliance

The Company’s interim condensed consolidated financial statements have been prepared in compliance with IAS 34 Interim Financial Reporting and using the same accounting policies as those described in the Company’s annual consolidated financial statements for the year ended December 31, 2018, except for changes arising from the adoption of IFRS 16, *Lease*, as described in Note 3 to these financial statements. The Company’s annual consolidated financial statements for the year ended December 31, 2018 were prepared in compliance with International Financial Reporting Standards (“IFRS”).

These interim condensed consolidated financial statements do not include all of the information required under IFRS for complete financial statements and they should therefore be read in conjunction with the Company’s annual consolidated financial statements for the year ended December 31, 2018. The Company’s interim condensed consolidated financial statements and annual consolidated financial statements are available on the SEDAR website at www.sedar.com and on the Company’s website at www.lxrco.com.

These interim condensed consolidated financial statements were authorized for issuance by the Company’s Board of Directors (the “Board”) on November 11, 2019.

Notes to the interim condensed consolidated financial statements

(in Canadian dollars)

Three-month and nine-month periods ended September 30, 2019 and 2018

Unaudited

3. Changes in accounting principles

a) Adoption of new accounting standards

IFRS 16 Leases

The Company has adopted IFRS 16, *Leases* 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 have remained largely unchanged.

Impact of the new definition of a lease

The Company has made use of the practical expedient available on transition to IFRS 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with IAS 17 and IFRIC 4 will continue to be applied to those leases entered or modified before December 31, 2018.

The Company applies the definition of a lease and related guidance set out in IFRS 16 to all lease contracts entered into or modified on or after December 31, 2018.

Impact on Lessee Accounting

Former operating leases

IFRS 16 changes how the Company accounts for leases previously classified as operating leases under IAS 17, which were off-balance-sheet.

Applying IFRS 16, for all leases (except as noted below), the Company:

- a. Recognizes right-of-use assets and lease liabilities in the consolidated statement of financial position, initially measured at the present value of future lease payments;
- b. Recognizes depreciation of right-of-use assets and interest on lease liabilities in the consolidated statement of profit or loss; and
- c. Separates the total amount cash paid into a principal portion (presented within financing activities) and interest (presented within operating activities) in the consolidated statement of cash flows.

Under IFRS 16, right-of-use assets are tested for impairment in accordance with IAS 36, *Impairment of assets*. This replaces the previous requirement to recognize a provision for onerous lease contracts.

LXRandCo, Inc.

Notes to the interim condensed consolidated financial statements

(in Canadian dollars)

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Unaudited

For short-term leases (lease term of 12 months or less) and leases of low-value assets (such as personal computers and office furniture), the Company has opted to recognize a lease expense on a straight-line basis as permitted by IFRS 16. This expense is presented within selling, general and administrative expenses in the consolidated statement of loss and comprehensive loss.

Previous finance leases have been reclassified from property and equipment, and capital lease liability, to right-of-use and lease liability.

Impact on financial statements

On adoption of IFRS 16, the Company recognized lease liabilities in relation to leases which had previously been classified as operating leases under the principles of IAS 17, *Leases*. These liabilities were measured at the present value of the remaining lease payments, discounted using the Company's incremental borrowing rate as of December 31, 2018. The lessee's incremental borrowing rate applied to the lease liabilities on December 31, 2018 was 6.0%.

Total commitment as presented as at December 31, 2018	1,470,694
(Less): other engagements related to operating leases	(311,019)
Operating lease commitments disclosed as at December 31, 2018	<u>1,159,675</u>
Discounted using the Company's incremental borrowing rate at December 31, 2018	973,060
Add: finance lease liabilities recognized as at December 31, 2018	
Payments related to the printer	12,505
Payments included in Head office not included in commitment (2 months)	29,357
(Less): short-term leases recognized on a straight-line basis as expense	<u>(58,781)</u>
Lease liability recognized as at January 1, 2019	956,141

LXRandCo, Inc.

Notes to the interim condensed consolidated financial statements

(in Canadian dollars)

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Unaudited

The associated rights-of-use assets were measured at the amount equal to the lease liability, 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, and other liabilities increased by \$956,141 on January 1, 2019.

	December 31, 2018	IFRS 16 Adoption	January 1, 2019
Assets			
Property and equipment, net	3,133,022	974,966	4,107,988
Prepaid expenses and deposits	165,523	(18,825)	146,698
Total assets	3,298,545	956,141	4,254,686
Liabilities			
Other liabilities	108,916	956,141	1,065,057
Total liabilities	108,916	956,141	1,065,057

In applying IFRS 16 for the first time, the Company has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- exemption from recognizing a right-of-use asset and a lease liability when the lease term ends within 12 months of the date of initial application;
- exemption from recognizing a right-of-use asset and a lease liability when the underlying asset is of low value;
- the right to exclude initial direct costs from the measurement of the right-of-use asset at the date of initial application; and
- the accounting for operating leases with a remaining lease term of less than 12 months as at January 1, 2019 as short-term leases and leases for which the underlying asset is of low value.

LXRandCo, Inc.

Notes to the interim condensed consolidated financial statements

(in Canadian dollars)

Three-month and nine-month periods ended September 30, 2019 and 2018

Unaudited

Accounting policies updated for IFRS 16

Leases

The Company enter into leases for property and equipment in the normal course of business. Lease contracts are made for fixed periods but may include renewal or termination options. Leases contain different terms and conditions. At inception of the contract, the Company assesses whether a contract contains a lease or not. A lease contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Company recognizes lease liabilities with corresponding right-of-use assets for all lease agreements, except for short-term leases and leases of low value, which are expensed on a straight-line basis over the lease term.

Lease liabilities are initially measured at the present value of the lease payments discounted using the Company's incremental borrowing rate. Lease payments included in the measurement of the lease liability comprise:

- Fixed (and in-substance fixed) lease payments, less any lease incentives;
- Variable lease payments that depend on an index or rate; and
- Payments expected under residual value guarantees and payments relating to purchase options and renewal option periods that are reasonably certain to be exercised (or periods subject to termination options that are not reasonably certain to be exercised).

Lease liabilities are subsequently measured at amortized cost using the effective interest method.

Right-of-use assets are measured at cost, comprised of the initial measurement of the corresponding lease liabilities, lease payments made at or before the commencement date and any initial direct costs. They are subsequently amortize on a straight-line basis over the term of the contract and reduced by impairment, if any.

Variable lease payments that do not depend on an index or rate are not included in the measurement of lease liabilities and right-of-use assets. The related payments are expensed in the selling, general and administrative expenses in the period in which the event or condition that triggers those payments occurs.

LXRandCo, Inc.

Notes to the interim condensed consolidated financial statements

(in Canadian dollars)

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Unaudited

Significant accounting judgement, estimates and assumptions updated for IFRS 16

Leases

At inception of a contract, the Company makes judgments to assess whether a contract is, or contains, a lease. 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.

4. Line of credit

On June 14, 2017, and as amended on October 18, 2017, the Company entered into a credit agreement with a Canadian chartered bank (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 (3.70% as at September 30, 2019 and 3.95% as at December 31, 2018) or U.S. base rate if denominated in U.S. dollars (5.00% as at September 30, 2019 and 5.50% as at December 31, 2018) plus an applicable margin of 0.50%, or (b) the banker's acceptance rate (1.95% as at September 30, 2019 and 2.25% as at December 31, 2018), plus an applicable margin of 2.00% or (c) LIBOR (2.04% as at September 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 and is presented in the current liabilities.

The Line of Credit requires the Company to meet certain financial covenants, which were all met as at September 30, 2019. The Line of Credit also requires the Company to meet certain non-financial covenants, which were met as at September 30, 2019.

The Company's line of credit is 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. As per the terms of the arrangement, in an event of default, the bank may, at any time, take possession of the collateral. As at September 30, 2019, the amount drawn from the Line of Credit amounted for \$7,078,735 (\$5,789,656 as at December 31, 2018).

LXRandCo, Inc.

Notes to the interim condensed consolidated financial statements

(in Canadian dollars)

Three-month and nine-month periods ended September 30, 2019 and 2018

Unaudited

5. Share capital

a) Issued

An unlimited number of Class B common shares, voting and fully participating, with no par value:

	Number #	Amount \$
Balance, January 1, 2019	15,676,012	90,202,459
Share issuance, net of issuance cost	12,500,000	4,652,415
Balance, September 30, 2019	28,176,012	94,854,874

On March 4, 2019, the Company issued 12,500,000 Class B common shares at a price of \$0.40 per share for gross proceeds of \$5,000,000. The Company incurred \$347,585 of share issuance costs that were recorded as a reduction of the related equity proceeds.

b) Forfeitable founders' shares

Included in the balance of outstanding Class B common shares above are 1,357,656 Class B common shares, which are subject to forfeiture on June 9, 2022, unless the closing price of the Class B common shares exceeds \$13.00 (as adjusted for stock split or combinations, stock dividends, reorganizations, or recapitalizations) for any 20 trading days within a 30 day-trading period.

c) Warrants

As at September 30, 2019, 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 the Qualifying Acquisition, to purchase one Class B common share at an exercise price of \$11.50 per share. The warrants will expire on June 9, 2022 or may expire earlier if the expiry date is accelerated pursuant to the terms of the warrant agreement, including if the closing price of the Company's Class B common shares on the TSX equals or exceeds \$24.00. The fair value of the warrants was established at \$12,940,438 at the LXR Acquisition date.

d) Long-term Incentive Plan (LTIP)

The Company's LTIP is an option-based and share-based compensation plan for directors, executive officers, and key employees and consultants. The LTIP of the Company has been approved by the Board in 2017 and has been approved by both the TSX and the Company's shareholders on May 11, 2018. The undernoted should be read in conjunction with the Company's Management Information Circular dated May 11, 2018.

LXRandCo, Inc.

Notes to the interim condensed consolidated financial statements

(in Canadian dollars)

Three-month and nine-month periods ended September 30, 2019 and 2018

Unaudited

i. Option-based compensation

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

There was no stock options granted during the nine-month period ended September 30, 2019. (The weighted average grant-date fair value was \$0.44 for stock options granted during the year ended December 31, 2018).

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

	September 30, 2019		December 31, 2018	
	Number #	Weighted average exercise price \$	Number #	Weighted average exercise price \$
Options beginning of period / year	287,312	1.19	281,798	1.68
Granted	-	-	76,000	4.92
Forfeited/Cancelled	(114,758)	1.72	(69,458)	1.68
Exercised	-	-	(1,028)	1.68
Outstanding, end of period / year	172,554	3.08	287,312	2.49
Options exercisable at end of period / year	111,277	3.85	157,754	3.21

LXRandCo, Inc.

Notes to the interim condensed consolidated financial statements

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Unaudited

The following table summarizes information about the outstanding stock options granted by the Company as at September 30, 2019:

Exercise price	Options outstanding	Weighted average remaining contractual life	Options exercisable	
	Number of options		Number of options	
\$	#	Year	#	
1.68	122,554	7.69	61,277	
6.50	50,000	3.51	50,000	
Total	2.54	172,554	6.50	111,277

The stock-based compensation expense related to stock options of \$93,126 (December 31, 2018 – \$348,989), is recorded in the consolidated statement of loss and comprehensive loss in selling, general and administrative expenses.

As at September 30, 2019, the total remaining unrecognized compensation expense related to non-vested stock options amounted to \$112,726, which will be recognized over the weighted average remaining requisite service period of 2 years.

ii. Deferred share unit plan

Deferred share units (“DSUs”) are awarded to eligible directors and executive officers under a deferred share unit plan. DSUs are notional securities that entitle the participant to receive cash or shares at the Company’s sole discretion upon the termination of his or her mandate, either by resignation, death, or failure to be elected at the Company’s annual general meeting of shareholders or at any other meeting of shareholders called for the purpose of electing directors.

The plan has been approved by the Board in 2017 and has been approved by both the TSX and the Company’s shareholders on May 11, 2018. The maximum number of Shares issued under the DSUs plan increased by 778,000 units and was approved by both the TSX and the Company’s shareholders on June 13, 2019. The current maximum number of Shares which may be issued from under the Deferred Share Unit Plan is 1,283,803 as at September 30, 2019.

LXRandCo, Inc.

Notes to the interim condensed consolidated financial statements

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Unaudited

Measurement at the grant date

The number of DSUs granted is determined 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.

During the nine-month period September 30, 2019, the Company granted to directors 515,086 DSUs (406,787 as at December 31, 2018) for a total expense of \$149,000 recorded in the consolidated statement of loss and comprehensive loss in selling, general and administrative expenses.

Measurement at the end of the reporting period

The DSUs are re-evaluated to fair value at the end of the reporting period based on the share price of the Company's Class B common shares on the TSX.

As at September 30, 2019, the Company re-evaluated the fair value of the DSUs to be \$184,995 and incurred a reduction in fair value of \$71,640 for the change in fair value in the consolidated statement of loss and comprehensive loss in selling, general and administrative expenses.

The outstanding DSUs are presented as other liabilities in the consolidated statement of financial position, as the terms of the arrangement provide that the Company, at its option, can settle the DSUs in either cash or by issuing equity instruments.

iii. Performance share units

Performance share units ("PSUs") are awarded to eligible consultants, employees and officers of the Company under the LTIP. PSUs are notional securities that entitle the participant to receive cash or common shares in an amount and according to a vesting schedule determined based on the participant's and/or the Company's performance as measured against pre-determined targets, thereby rewarding such participant for achieving specific performance objectives. The number of PSUs granted is determined based on the 5-day variable weighted average share price of the Company's Class B common shares immediately following the determination by the Board or by a committee appointed by the Board that the vesting conditions have been met.

The plan has been approved by the Board in 2017 and has been approved by both the TSX and the Company's shareholders on May 11, 2018.

LXRandCo, Inc.

Notes to the interim condensed consolidated financial statements

(in Canadian dollars)

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Unaudited

Measurement at the grant date

On November 26, 2018, the Company granted 83,333 PSUs, and recognized a compensation expense of \$1,880.

Measurement at the end of the reporting period

As at September 30, 2019, the Company re-evaluated the value of the PSU to be \$9,024 based on the closing price of the Class B common shares of the Company on the TSX. As a result of the fair value re-evaluation, the Company incurred an expense of \$7,743 (December 31, 2018 - \$597) for the change in fair value in the consolidated statement of loss and comprehensive loss in selling, general and administrative expenses.

The outstanding PSUs are presented as other liabilities in the consolidated statements of financial position, as the terms of the arrangement provide the Company with the choice of whether to settle the PSUs in cash or by issuing equity instruments and that the Company generally settles in cash.

6. Revenue

The Company derives its revenue through three different sales channels: a retail network of stores located in major department stores selling directly to customers; contracts with wholesale customers for the sale of goods at a point in time; and the delivery of goods sold through its own transactional e-commerce website or websites operated by its retail channel partners.

The following table disaggregates the Company's revenues through its three sales channels:

	For the three-month period ended September 30,		For the nine-month period ended September 30	
	2019	2018	2019	2018
	\$	\$	\$	\$
Retail	6,586,686	7,288,317	20,712,235	22,618,281
Wholesale	742,641	2,205,419	2,368,044	3,616,506
E-Commerce	985,288	581,766	2,548,836	1,919,480
	8,314,615	10,075,502	25,629,115	28,154,267

LXRandCo, Inc.

Notes to the interim condensed consolidated financial statements

(in Canadian dollars)

Three-month and nine-month periods ended September 30, 2019 and 2018

Unaudited

7. Selling, general and administrative expenses

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

	For the three-month period ended September 30,		For the nine-month period ended September 30	
	2019	2018	2019	2018
	\$	\$	\$	\$
Wages, salaries and employee benefits	2,937,220	2,704,199	9,601,494	10,840,302
Professional fees	309,556	586,753	1,289,089	1,731,064
Stock-based compensation	41,309	87,817	178,229	102,315
Bad debt expense/(recovery)	68,037	53,159	(184,674)	856,650
Store-related opening and closing costs	32,023	4,662	105,944	175,676
Reporting issuer costs	47,573	72,221	249,539	224,372
Travel and entertainment	147,132	196,491	414,386	520,055
Other	428,966	720,669	1,353,241	1,737,106
	4,011,816	4,425,971	13,007,248	16,187,540

LXRandCo, Inc.

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Unaudited

8. 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 has 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, on June 18, 2019, LXR&Co UK Limited was dissolved, and on September 29, 2019, LXR & Co Germany GmbH was dissolved. Investments in these companies were derecognized in the parent company and a loss of \$382,846 on 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 September 30,		For the nine-month period ended September 30	
	2019	2018	2019	2018
	\$	\$	\$	\$
Net revenue	-	188,011	-	2,021,974
Cost of sales	-	(53,962)	-	(1,402,002)
Gross profit	-	134,049	-	619,972
Selling, general, and administrative expenses	-	(499,387)	-	(3,365,274)
Loss from operating activities	-	(365,338)	-	(2,745,302)
Other expenses	-	13,171	-	(13,138)
Net loss from discontinued operations	-	(352,167)	-	(2,732,164)
Loss per share from discontinued operations				
Basic and diluted	(0.00)	(0.03)	(0.00)	(0.20)

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

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The cash flows from discontinued operations is detailed as follows:

	For the three-month period ended September 30,		For the nine-month period ended September 30	
	2019	2018	2019	2018
	\$	\$	\$	\$
Net cash flows from operating activities	(3,052)	(1,189,543)	(26,413)	(2,323,486)
Net cash flows from investing activities	-	14,956	-	(11,982)
Net decrease in cash	(3,052)	(1,174,587)	(26,413)	(2,335,468)

9. Earnings (loss) per share

Basic earnings (loss) per share ("EPS") amounts are calculated by dividing the profit (loss) for the three-month period attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the period. Diluted EPS amounts are calculated by dividing the profit (loss) attributable to ordinary equity holders of the parent (after adjusting for dividends and accretion interest on the mandatorily redeemable preferred shares) by the weighted average number of ordinary shares outstanding during the three-month period plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares into ordinary shares, unless these would be anti-dilutive. For the three-month and nine-month periods ended September 30, 2019 and 2018, as a result of the net loss during those periods, the warrants, stock-based awards and convertible redeemable preferred shares are anti-dilutive.

10. 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 and the United States (closure of all of its European stores in the year-end 2018).

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The following table summarize net revenue by geography:

	For the three-month period ended September 30,		For the nine-month period ended September 30	
	2019	2018	2019	2018
	\$	\$	\$	\$
Canada	1,005,737	1,066,333	2,526,434	3,165,130
United States	7,308,878	9,009,169	23,102,681	24,989,137
	8,314,615	10,075,502	25,629,115	28,154,267

During the year-ending December 31, 2018, the Company ceased the operations of its European based subsidiaries (see note 8) and no longer reports revenue for this geographic region.

11. Financial risk management

Fair values

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

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

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

Level 2: This level includes valuations determined using directly (i.e., as prices) or indirectly (i.e., derived from prices) observable inputs other than quoted prices included within Level 1.

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

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

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

The fair values of the Company's other financial instruments are considered to approximate their carrying values due to the short-term maturity. There were no significant transfers between Level 1, Level 2 and Level 3 of the fair value hierarchy during the three-month and nine-month periods ended September 30, 2019 and 2018.

12. Subsequent event

In September 2019, the Company announced the departure of its Chief Operating Officer and its President and Chief Executive Officer. Related costs to be recorded in the following quarter, totalled \$212,625.