LXRANDCO

LXRandCo, Inc.

MANAGEMENT'S DISCUSSION AND ANALYSIS
Fourth Quarter and Year Ended December 31, 2019

March 25, 2020

The following management's discussion and analysis ("MD&A") dated March 25, 2020 is intended to assist readers in understanding the business environment and financial performance 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 audited consolidated financial statements of LXRandCo and notes thereto for the year ended December 31, 2019.

Basis of Presentation

The consolidated financial statements of LXRandCo have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"), using the accounting policies described therein. All amounts are presented in Canadian dollars, unless otherwise stated. LXRandCo's fiscal year ends on December 31.

The consolidated financial statements and notes thereto for the year ended December 31, 2019, and this MD&A were approved by the Board of Directors on March 25, 2020.

Going concern

In the preparation of the Company's consolidated financial statements, management is required to identify when events or conditions indicate that significant doubt may exist about the Company's ability to continue as a going concern.

Significant doubt about the Company's ability to continue as a going concern would exist when relevant conditions and events, considered in the aggregate, indicate that there is material uncertainty that the Company will not be able to meet its obligations as they become due for a period of at least, but not limited to 12 months from the statement of financial position date. When the Company identifies conditions or events that raise potential for significant doubt about its ability to continue as a going concern, the Company considers whether its plans that are intended to mitigate those relevant conditions or events will alleviate the potential significant doubt. The mitigating effect of management's plans are considered to the extent that: a) it is probable that the plans will be effectively implemented and, if so, b) it is probable that the plans will mitigate the conditions or events that raise significant doubt about the Company's ability to continue as a going concern.

The accompanying consolidated financial statements have been prepared on a going concern basis which assumes the continued realization of assets and satisfaction of liabilities and commitments in the normal course of business.

During the year ended December 31, 2019, the Company incurred a net loss of $10.4 million (2018 – net loss of $22.2 million) and had negative operating cash flows of $5.3 million (2018 – $7.3 million). In addition, at December 31, 2019, the Company had a working capital surplus of $1.3 million , which includes its funding obligations under its existing Line of Credit of $8.0 million as it is due in June 2020 (December 31, 2018 – working capital of $9.2 million which excludes its funding obligations under its existing Line of Credit of $5.8 million given it was a long-term liability at that time) and an accumulated deficit of $106.8 million (December 31, 2018 - $96.4 million).

As the Company continues to implement measures to improve profitability by increasing sales and reducing selling, general and administrative expenses (SG&A) and with the World Health Organization's declaration of the coronavirus ("COVID-19") as a global pandemic and, after assessing (a) the recent escalation of the spread of the coronavirus in North America, (b) the impact and actions undertaken by our retail partners and the Company in ensuring the well-being and safety of employees and consumers, and (c) the uncertainty as to the duration of the COVID-19's contagion period, management has concluded that there exist material uncertainties related to events or conditions that may cast significant doubt upon the assumptions underpinning the Company's forecasts and plans and accordingly its ability to continue as a going concern. The judgments made by management in reaching this conclusion are based on information available as of the date these consolidated financial statements were authorized for issuance. These consolidated financial statements do not include any adjustments that might be necessary should the Company be unable to continue as a going concern and therefore be required to realize its assets and discharge its liabilities other than in the normal course of business. Accordingly, actual results may differ from those estimates and the variation may be material.

The Company believes the ongoing effects of COVID-19 on its operations, particularly in a prolonged scenario, will have a material negative impact on its financial results and liquidity. The Company is taking additional actions to improve its liquidity, including accelerating its e-commerce online activities, and initiating capital expenditure and expense reductions.

The Company's activities involve material risk and uncertainty, and the future profitability of the Company is dependent upon a number of factors, including increasing sales, reducing SG&A, the underlying health and viability of its retail partners, general economic conditions and on consumer sentiment in general, and in the near to medium-term, any possible sustained negative effects of the coronavirus on consumer confidence and buying patterns. While management has been successful in securing financing through share issuances and a Line of Credit in the past, there can be no assurance it will be able to do so in the future or that these sources of funding or initiatives will be available for the Company or that they will be available on terms which are acceptable to the Company.

Non-IFRS Measures

This MD&A refers to certain non-IFRS measures. These measures are not recognized 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**," 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 believes that securities analysts, investors and other interested parties frequently use non-IFRS measures in the evaluation of company performance. 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, 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, the state of wholesale demand, 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", "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 ability of the Company to continue to expand its wholesale activities, 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 activity 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 (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 any of 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. It sources and authenticates high-quality pre-owned products and sells them through: a retail network of 'shop-in-shop' stores located in major department stores in the United States and Canada; wholesale activities with retailers located primarily in the United States; and its own e-commerce website, www.lxrco.com, as well as the e-commerce platforms of certain of its retail and digital 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 December 31, 2019, LXRandCo's retail network consisted of 80 stores with 68 located in the United States and 12 in Canada. LXRandCo has offices in Montréal, Canada, and Tokyo, Japan.
LXRandCo partners with premier mid-tier department stores and select off-price retailers. In doing so, it provides retail partners with a compelling value proposition by offering them the world's most coveted luxury brands, which they may not otherwise have access to, with certified authenticity and at price points that are affordable to their customers, while delivering above-average revenue productivity as compared to that of their overall store.

LXRandCo's mission is to connect consumers with pre-owned branded luxury handbags and accessories and inspire a new pride in owning "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 believes that it offers consumers 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 store in Beverly Hills, California. Thereafter, recognizing the opportunity to position itself uniquely in the vintage luxury landscape by establishing a broader retail presence, LXRandCo began expanding its store network and transitioning to a more flexible, capital efficient shop-in-shop model under which it partnered with premier mid-tier department stores and select off-price retailers.

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, LXRandCo had expanded its retail network to 46 stores (with 32 locations in the United States, eight in Canada and six in Germany). Total revenue for 2016 was $21.9 million, its gross profit margin was 31.6% and the Company was profitable on an Adjusted EBITDA basis.

In 2017, in an effort to meet the considerable demand from retail partners for added store locations, the Company embarked on an accelerated growth plan, for which it required funding. In June 2017, LXRandCo raised $25.0 million in gross proceeds through a public offering of shares and became a publicly-traded company on the Toronto Stock Exchange. During that year, LXRandCo opened 90 stores, nearly tripling its retail network to 131 stores at year-end and substantially expanding its presence in Europe. This rapid expansion, which occurred primarily in the second half of the year, placed a significant management burden on the Company and, among other things, led to an adverse impact on gross margin and an increase in corporate costs which resulted in a substantial use of cash from operating activities. While revenue grew to $37.1 million in 2017, gross profit margin declined to 24.8% and Adjusted EBITDA was a loss of $5.1 million.

In February 2018, the Company completed another public offering of shares for gross proceeds of $14.3 million. Later in 2018, following the challenges encountered of pursuing its aggressive growth strategy, LXRandCo implemented initiatives to achieve more disciplined revenue growth and to regain margin expansion. These included refocusing the Company's product strategy and inventory levels, and a reduction in the retail network with certain key retail partners in the U.S. and Canada, which included the closure of its European stores and certain unprofitable locations in the U.S. and Canada. In April 2018, the Board of Directors initiated the Company's transition away from a founder-led management team and appointed Steven Goldsmith, a director of the Company, to the position of Chief Executive Officer. Revenue in 2018 was $39.0 million and gross profit margin was 25.0%. At the end of the year, the retail network consisted of 86 stores. In August 2018, in a process led by its independent directors, LXRandCo initiated a strategic review of its operations aimed at among other things, securing additional equity capital.

In March 2019, pursuant to the strategic review initiative, the Company completed a private placement of shares for gross proceeds of $5.0 million. In May 2019, the Company began the transition away from a founder-led Board of Directors to a more professionally managed board of qualified and experienced directors. It reduced the size of the board from eight directors to six, and appointed two new independent directors—Eric Graveline and Nicolas Topiol—and named Valerie Sorbie as Chair of the Board. In September 2019, to further accelerate the changes required to stabilize and grow the Company, the Company's Chief Executive Officer, Steven Goldsmith, left the Company and the Board of Directors created an Office of the President, composed of two existing directors—Valerie Sorbie and Camillo di Prata (the latter acting as Interim Chief Executive Officer of the Company). Revenue in 2019 was $40.1 million and gross profit margin was 30.9%. At the end of the year, the retail network consisted of 80 stores.

Financial and Operating Highlights

Please refer to the section entitled "**How Management Assesses the Performance of LXRandCo**" in this MD&A for the definition of items disclosed below and, where 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 refer to the continuing operations of the Company.

Overview of Results for the Three-Month Period Ended December 31, 2019, compared to the Three-Month Period Ended December 31, 2018

Select financial highlights include the following:

- The retail network at December 31, 2019 consisted of 80 stores compared to 86 in 2018. This decrease was mainly due to the Company's decision to terminate an unprofitable retail partnership in 2019, which resulted in the closure of six stores in the U.S.
- Net revenue increased by 32.9% to $14.4 million from $10.9 million.
- E-Commerce revenue increased to 8.1% of net revenue from 4.7%.
- Gross profit increased by 43.8% to $4.7 million from $3.3 million.
- Gross profit margin increased to 32.8% compared to 30.3%.
- Selling, general and administrative expenses decreased 23.9% to $5.8 million, or 40.0%

of net revenue, from $7.6 million, or 69.8% of net revenue.

- Net loss decreased to $2.1 million from a net loss of $3.7 million.

- Adjusted Net Loss (a non-IFRS measure) decreased to $0.5 million from an Adjusted Net Loss of $2.8 million.

- Adjusted EBITDA Loss (a non-IFRS measure) decreased to $0.1 million versus an Adjusted EBITDA loss of $2.5 million in 2018.

- Cash flow from operations for the period was positive, with cash provided (generated) from operations improving by $0.3 million to $0.8 million versus $0.5 million.

Overview of Results for the Year Ended December 31, 2019, compared to the Year Ended December 31, 2018

Select financial highlights include the following:

- Net revenue increased 2.7% to $40.1 million from $39.0 million.

- E-Commerce revenue increased to 9.3% of net revenue from 6.2%.

- Gross profit increased by 26.6% to $12.4 million from $9.8 million.

- Gross profit margin increased to 30.9% compared to 25.0%. Excluding the negative impact of two liquidation sales undertaken in February and March 2019, gross margin would have been 32.6%.

- Selling, general and administrative expenses decreased 21.4% to $19.2 million, or 47.9% of net revenue, from $24.5 million, or 62.7% of net revenue.

- Net loss decreased to $10.0 million from a net loss of $19.6 million.

- Adjusted Net Loss (a non-IFRS measure) decreased to $6.3 million from an Adjusted Net Loss of $15.0 million.

- Adjusted EBITDA (a non-IFRS measure) improved to a loss of $4.7 million from an Adjusted EBITDA loss of $12.7 million in 2018.

- While cash flow from operations for the year was negative, cash used in operations over the year improved by $2.0 million, coming in at $5.3 million versus $7.3 million.

- Cash balance at the end of the year was $3.5 million as compared to $2.3 million in 2018.

Factors Affecting Results from Operations

Management believes that the success and future performance of LXRandCo depends on a number of factors that present significant opportunities. These factors are also subject to a number of important 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, 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 the Company 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 its success and that maintaining and enhancing the important attributes of the LXRandCo brand, including product authenticity, product assortment and an attractive price to value relationship, are essential to LXRandCo's ongoing success. Consequently, any loss of perceived or actual 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 its own database capabilities. LXRandCo's merchandising is continuously curated to ensure that LXRandCo offers an attractive value proposition to its targeted demographic, with the objective of providing consumers with the right product, at the right price across all channels. LXRandCo's continued success will depend on, among other factors, its continued ability to properly assess demand in its target markets and to continue to implement a disciplined merchandise planning and sourcing strategy that allows it to maintain optimal inventory levels, product assortment and competitive pricing.

Sourcing and Authentication

LXRandCo sources its merchandise primarily from third-party suppliers in Japan and to a lesser extent other supplier networks including individual 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 scale and at competitive costs. It is management's intention, over time, to increase the amount of product it sources directly from North America and from individual consumers. Significant disruptions in LXRandCo's current and planned sources of product supply could affect LXRandCo's ability to effectively address market demand, achieve its revenue growth targets and store productivity objectives. There can be no guarantee that LXRandCo can continue to diversify its sourcing alternatives by increasing the proportion it sources directly from North America and/or individual consumers.

In addition to authentication guarantees provided to it by suppliers, LXRandCo maintains its own 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 brand appeal and overall business and financial results. There is no guarantee that LXRandCo can continue to maintain uncompromising standards in product authentication in order to provide an authenticity guarantee on all product sales.

Retail Network Expansion

LXRandCo intends to opportunistically and selectively expand its retail network across Canada and the United States. However, LXRandCo's ability to successfully expand will depend on numerous factors, including funding, individual new store profitability, securing profitable new retail partnerships, expanding existing partnerships in key targeted geographies, and the prospects of generating the anticipated financial performance for both LXRandCo and its retail partners.

Retail Network Productivity and Scalability

LXRandCo's shop-in-shop store model is designed to be flexible and rapidly scalable. LXRandCo believes that its store productivity depends on, among other factors, being present in department stores that target a consumer demographic that has an affinity for pre-owned vintage luxury products, obtaining choice space and placement within department store locations, its ability to offer an attractive value proposition to consumers, and creating a unique buying experience for its customers. LXRandCo will continue to manage its sourcing and merchandising functions in order 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 launched its e-commerce offering in 2013 and management believes there is an opportunity to meaningfully grow its e-commerce business over time. Where possible, LXRandCo plans to leverage business intelligence and consumer spending 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 for itself and its retail partners. Management also believes there is an opportunity to develop a mutually positive relationship between its retail channel and its proprietary website at www.lxrco.com, through increased brand awareness and affinity. There can be no guarantee, that as LXRandCo expands its omni-channel model, that its e-commerce business will benefit materially from the increased awareness of the LXRandCo brand resulting from its larger retail network.

General Economic Conditions and Consumer Spending

LXRandCo's revenue is affected by general economic conditions and consumer spending, which are affected by many factors that are beyond LXRandCo's control, including, but not limited to, slowdowns in growth due to less economic activity and more significant events due to the effects of weather, natural or health disasters. In addition to potentially causing an interruption in the Company's operations, the occurrence of any such events, such as the recent outbreak of the coronavirus (COVID-19), in any of any of the areas in which the Company, its customers or its suppliers operate could have serious negative implications on general economic conditions which, among other things, could adversely affect consumer disposable income levels, discretionary spending by consumers, consumer confidence, consumer debt, and the cost of basic necessities and other goods. This could negatively impact the demand for the Company's products which in turn could have a material adverse effect on the Company's business, financial condition, results of operations and cash flows — see "**Going Concern Uncertainty**" section above.

Consumer Trends

Demand for vintage luxury handbags and accessories is subject to shifts in general consumer trends and preferences and consumer spending, and LXRandCo's revenue and operating results depend 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 luxury 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

Seasonality

As set forth in the table below, LXRandCo's business experienced seasonality in 2019 with a higher proportion of net revenue generated in the fourth quarter of the year. While the days leading up to Valentine's Day and Mother's Day in the first and second quarters of the year are important selling periods, in 2019, 'Black Friday' and the Christmas holiday season in the fourth quarter of the year were important sales-generating periods representing 37% of the total net revenue in 2019 (compared to 30% in 2018). Based on the net revenue generated for the full year ended December 31, 2019, the quarterly share of annual net revenue for the year was as follows:

First fiscal quarter……………………………………	21%
Second fiscal quarter	21%
Third fiscal quarter	21%
Fourth fiscal quarter	37%
Yearly total	100%

Weather

Severe weather events in geographies where our stores are located could adversely affect our business and financial results. For example, frequent or unusually heavy snowfall, natural disasters, or other extreme weather conditions over a prolonged period could make it difficult for our clients to travel to our stores and thereby reduce our revenue in any given period. This risk, while potentially mitigated by our clients' ability to buy our products through lxrco.com and/or our partner websites, is nonetheless dependent on the Company's ability to ship goods in a cost-effective and timely manner.

Competition

LXRandCo operates in the highly competitive pre-owned branded vintage luxury accessories industry in North America. Among other things, the Company competes on the basis of several factors that include: the attractiveness of its mix of products and brands; having more affordable product price points relative to new branded luxury products; more attractive or comparable pricing relative to other retailers of pre-owned branded vintage products; its ability to source specific products more consistently and with greater depth; the effectiveness of its omni-channel sales network; its guarantee of authenticity; the strength of its retail partner relationships; its continued focus on providing exceptional customer service; and its overall market positioning within a growing demographic for its products.

Foreign Exchange

LXRandCo reports its financial results in Canadian dollars. In 2019, the majority of LXRandCo's net revenue was derived in U.S. dollars while most of its cost of goods sold was sourced in Japanese yen. Consequently, any 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 revenue, gross profit margins and overall operating results. At present, LXRandCo is not relying on any hedging strategies to mitigate the risks associated with adverse currency fluctuations in either the Japanese yen or the U.S. dollar.

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, 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 store 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, any 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 13 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 13 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.

Key Financial and Operating Information

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

LXRandCo, Inc.
Consolidated statements of loss and comprehensive loss

(in Canadian dollars, except per share amounts, unaudited)

	For the three-month periods ended December 31,		For the years ended December 31,	
	2019	**2018**	**2019**	2018
Net revenue	**14,440,173**	10,864,627	**40,069,288**	39,018,893
Cost of sales	**9,710,949**	7,575,969	**27,694,255**	29,245,980
Gross profit	**4,729,225**	**3,288,657**	**12,375,034**	**9,772,913**
Operating expenses				
Selling, general and administrative expenses	**5,777,456**	7,587,249	**19,212,602**	24,453,744
Amortization and depreciation expenses	**331,962**	314,179	**1,094,133**	1,323,932
Impairment of goodwill	**—**	—	**—**	3,683,987
Results from operating activities	**(1,380,194)**	**(4,612,772)**	**(7,931,702)**	**(19,688,750)**
Other income and expenses				
Finance costs	**133,120**	90,360	**485,164**	1,028,479
Foreign exchange loss/(gain)	**459,467**	(913,416)	**1,467,715**	(1,041,004)
Loss on investment in preferred shares	**112,683**	—	**112,683**	—
Loss before income taxes	**(2,085,464)**	**(3,789,715)**	**(9,997,263)**	**(19,676,225)**
Income tax expense (recovery)				
Current	**(16,841)**	(87,576)	**37,516**	(47,511)
Deferred	**—**	(44,619)	**—**	(619)
	(16,841)	**(132,194)**	**37,516**	**(48,130)**
Net loss from continuing operations	**(2,068,622)**	**(3,657,521)**	**(10,034,779)**	**(19,628,096)**
Net loss from discontinued operations	**(385,846)**	**(112,438)**	**(382,846)**	**(2,564,804)**
Net loss	**(2,454,468)**	**(3,769,959)**	**(10,417,625)**	**(22,192,900)**

	For the three-month periods ended December 31,		For the years ended December 31,	
	2019	**2018**	**2019**	**2018**
Reconciliation of Net Loss to Adjusted Net Loss				
Net Loss	**(2,454,468)**	(3,769,959)	**(10,417,625)**	(22,192,900)
Adjustments to Net Income:				
Foreign exchange loss (gain)	**459,467**	(913,416)	**1,467,715**	(1,041,004)
Impairment of goodwill	**—**	—	**—**	3,683,987
Impairment of property and equipment	**—**	80,675	**—**	80,675
Write off of property and equipment	**555,129**	**—**	**983,027**	127,696
Stock-Based Compensation Expense	**394,391**	323,993	**572,620**	426,308
Loss on investment in preferred shares	**112,683**	—	**112,683**	
Non-recurring professional fees	**—**	659,308	**474,853**	659,308
Store closing cost	**24,770**	725,084	**130,714**	725,084
Loss from discontinued operations	**385,846**	112,438	**382,846**	2,564,804
Adjusted Net Loss	**(522,182)**	**(2,781,878)**	**(6,293,167)**	**(14,966,042)**

	For the three-month periods ended December 31,		For the years ended December 31,	
	2019	**2018**	**2019**	**2018**
Reconciliation of net loss to Adjusted EBITDA				
Net Loss	**(2,454,468)**	(3,769,959)	**(10,417,625)**	(22,192,900)
Add: Amortization and depreciation expense	**331,962**	314,179	**1,094,133**	1,323,932
Add: Finance Costs	**133,120**	90,360	**485,164**	1,028,479
Add: Income Tax Expense (Recovery)	**(16,841)**	(132,194)	**37,516**	(48,130)
EBITDA	**(2,006,227)**	**(3,497,615)**	**(8,800,812)**	**(19,888,619)**
Adjustments to EBITDA:				
Foreign exchange loss (gain)	**459,467**	(913,416)	**1,467,717**	(1,041,004)
Impairment of property and equipment	**—**	80,675	**—**	80,675
Write off of property and equipment	**555,129**	**—**	**983,027**	127,696
Loss on investment in preferred shares	**112,683**	**—**	**112,683**	**—**
Impairment of goodwill	**—**	**—**	**—**	3,683,987
Stock-Based Compensation Expense	**394,391**	323,993	**572,620**	426,308
Professional fees related to strategic review and private placement	**—**	659,308	**474,853**	659,308
Store closing costs	**24,770**	725,084	**130,714**	725,084
Loss from discontinued operations	**385,846**	112,438	**382,846**	2,564,804
Adjusted EBITDA	**(73,941)**	**(2,509,533)**	**(4,676,354)**	**(12,661,761)**

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

Selected retail network data	For the three-month periods ended December 31, 2019	2018	For the years ended December 31, 2019	2018
Number of stores, beginning of period	**81**	95	**86**	131
Store openings	**0**	7	**5**	48
Store closures	**1**	16	**11**	93
Number of stores, end of period	**80**	**86**	**80**	**86**

Results of Operations

Comparison of the Three-Month Periods and Years Ended December 31, 2019 and 2018.

Net Revenue

LXRandCo's retail network consisted of 80 stores as at December 31, 2019, compared to 86 stores as at December 31, 2018. In 2019, the Company opened five stores (as compared to 48 in 2018) and closed 11 stores (versus 93 closures in 2018). These store openings and closures were consistent with the Company's objective of optimizing the performance of its retail network across North America. In 2019, approximately 90% and 10% of its net revenue was generated in the U.S. and Canada, respectively, as compared to 89% and 11% in 2018.

In the three-month period ended December 31, 2019, net revenue increased by 32.9% to $14.4 million as compared to $10.9 million in the three-month period ended December 31, 2018. During this period, e-commerce revenue increased to represent 8.1% of total net revenue as compared to 4.7% last year. In the year ended December 31, 2019, net revenue increased by 2.7% to $40.1 million as compared to $39.0 million for the year ended December 31, 2018, with e-commerce revenue representing 9.3% of total net revenue versus 6.3% in 2018. The improvements in revenue for the three-month period and year ended December 31, 2019 reflect the Company's rebalancing of its omni-channel model that remained focused on its core retail network and on enhanced wholesale and e-commerce growth.

Gross Profit

In the three-month period ended December 31, 2019, gross profit increased by 43.8% to $4.7 million as compared to $3.3 million in the three-month period ended December 31, 2018 and increased by 26.6% to $12.4 million over the year ended December 31, 2019 versus $9.8 million in the year ended December 31, 2018. Excluding the impact of two liquidation sales undertaken in February and March of 2019, when the Company was cash constrained, gross profit would have been $12.7 million for the year ended December 31, 2019.

In the three-month period ended December 31, 2019, gross profit margin increased to 32.8% compared to 30.3% in the three-month period ended December 31, 2018. In the year ended December 31, 2019, gross profit margin was 30.9% as compared to 25.0% for the comparable year ended December 31, 2018. The material improvements in gross margin for the three-month period and year ended December 31, 2019 reflect the Company's objective of optimizing its retail operations and, among other things, include the cumulative effects of reduced licensing fees with two retail partners, the termination of an unprofitable retail partnership, a more efficient and disciplined product sourcing strategy, a decrease in inventory obsolescence provisions, and a significant reduction in inventory shrinkage and freight expense.

SG&A Expenses

In the three-month period ended December 31, 2019, SG&A expenses decreased by 23.9% to $5.8 million, compared to $7.6 million in the three-month period ended December 31, 2018. SG&A expenses decreased 21.4% to $19.2 million in the year ended December 31, 2019, compared to $24.5 million in the year ended December 31, 2018. The improvement in SG&A expenses is attributable primarily to the operation of fewer unprofitable stores throughout the period, which resulted in decreased store and corporate headcount costs, lower costs related to the storage and transportation of inventory and fixtures resulting from the store closures undertaken in 2018, and the absence of one-time fees and expenses relating to the strategic review initiative and financing that occurred in 2018.

As of December 31, 2019 and including retail partner employees under the direct supervision of the Company, LXRandCo's total employee headcount decreased to 294 from 320 as at December 31, 2018. The number of employees directly employed by the Company was 164 as of December 31, 2019, as compared to 179 as at December 31, 2018. This decrease in headcount is mainly the result of a streamlined retail network, including the impact of the discontinued operations in Europe.

Net Loss

In the three-month period ended December 31, 2019, the Company's net loss decreased to $1.7 million from a net loss of $3.7 million in the three-month period ended December 31, 2018. Net loss decreased to $10.0 million in the year ended December 31, 2019, as compared to a net loss of $19.6 million in the year ended December 31, 2018.

Adjusted Net Loss

In the three-month period ended December 31, 2019, Adjusted Net Loss decreased to $0.5 million as compared to an Adjusted Net Loss of $2.8 million in the three-month period ended December 31, 2018. Adjusted Net Loss decreased to $6.3 million in the year ended December 31, 2019, as compared to an Adjusted Net Loss of $15.0 million in the year ended December 31, 2018. The financial table on page 13 sets forth the reconciliation of Net Loss to Adjusted Net Loss.

Adjusted EBITDA

In the three-month period ended December 31, 2019, Adjusted EBITDA loss decreased to $0.1 million as compared to an Adjusted EBITDA loss of $2.5 million in the three-month period ended December 31, 2018. Adjusted EBITDA improved to a loss of $4.7 million in the year ended December 31, 2019, from an Adjusted EBITDA loss of $12.7 million in the year ended December 31, 2018. The financial table on page 13 sets forth the reconciliation of Net Loss to Adjusted EBITDA.

Selected Quarterly Financial Information

The following table summarizes the results of LXRandCo for the most recently completed eight 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 change in strategy over the last few years and factors such as seasonality, the results of operations for any quarter are not necessarily indicative of the results of operations for the full year.

Consolidated statements of loss:	2019 Q4 $	2019 Q3 $	2019 Q2 $	2019 Q1 $	2018 Q4 $	2018 Q3 $	2018 Q2 $	2018 Q1 $
Net revenue	**14,440,173**	8,314,615	8,558,435	8,756,063	10,864,627	9,945,707	9,286,767	8,791,998
Net loss	**(1,682,776)**	(2,310,792)	(2,209,055)	(3,859,556)	(3,657,520)	(3,138,142)	(10,695,550)	(3,600,785)
Net loss per share								
Basic	**(0.09)**	(0.09)	(0.08)	(0.21)	(0.28)	(0.21)	(0.75)	(0.28)
Fully diluted	**(0.01)**	(0.09)	(0.08)	(0.21)	(0.28)	(0.21)	(0.75)	(0.28)
Adjusted Net Loss	**(522,182)**	(1,673,834)	(1,596,708)	(2,584,344)	(2,781,877)	(2,791,219)	(7,310,371)	(4,414,841)
Adjusted EBITDA	**(73,941)**	(1,287,449)	(1,186,171)	(2,212,694)	(2,509,533)	(2,183,937)	(6,345,888)	(3,823,399)

Liquidity and Capital Resources

Overview

LXRandCo's primary uses of funds are for operating expenses, working capital requirements (primarily the purchase of inventory), capital expenditures and debt service requirements. 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 among other things, general economic, financial and other factors, including factors beyond its control. See "Going Concern", "Factors Affecting Results from Operations" and "Risk Factors" sections in this MD&A for additional information. Occasionally, LXRandCo reviews acquisition opportunities in the normal course of business and may in future decide to make select acquisitions to accelerate its business strategy when suitable opportunities arise. Management expects that the funding for any such acquisitions would come from existing cash, cash flow from operating activities, the issuance of additional equity capital and/or its credit facility.

Working Capital

Working capital includes current assets made up of cash, accounts receivable, sales taxes receivable, inventory, prepaid expenses and prepaid deposits; and current liabilities made up of accounts payable and accrued liabilities, deferred revenue, sales taxes payable, income tax payable and the current portion of the credit facility.

Generally, LXRandCo's working capital needs fluctuate at different points in the year, with peak periods resulting from inventory sourcing requirements commencing weeks before Valentine's Day in February, Mother's Day in May, U.S. Thanksgiving in November, and during the December holiday season. In addition, since store openings, if any, tend to be launched in the fall season, working capital requirements will be more pronounced leading up to and during the third quarter period.

As at December 31, 2019, LXRandCo's net working capital position was $1.3 million, made up of $15.7 million in current assets offset by $14.3 million in current liabilities. Excluding the Line of Credit, (which in 2019 has been included in current liabilities due to its imminent maturity—see "Credit Facilities" and "Contractual Obligations" below), the Company had a working capital surplus of $9.4 million. Cash on hand at December 31, 2019 was $3.5 million.

Credit Facilities and Other Indebtedness

The following summarizes the indebtedness incurred by LXRandCo as at December 31, 2019. This summary should be read in conjunction with the consolidated financial statements of the Company for the year ended December 31, 2019.

Credit Facilities

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 (3.95% as at December 31, 2019 and 3.95% as at December 31, 2018) or U.S. base rate if denominated in U.S. dollars (4.75% as at December 31, 2019 and 5.50% as at December 31, 2018) plus an applicable margin of 0.50%, or (b) the banker’s acceptance rate (2.08% as at December 31, 2019 and 2.25% as at December 31, 2018), plus an applicable margin of 2.00% or (c) LIBOR (1.80% as at December 31, 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 not exceeding a maximum amount of $1,000,000, secured by forward exchange contracts entered into by the Company. The Line of Credit can also be used to issue letters of credit not exceeding a maximum amount of $2,000,000. No exchange contracts and letters of credit were used during the year ended December 31, 2019.

The Line of Credit requires the Company to meet certain financial covenants, which were all met as at December 31, 2019. The Line of Credit also requires the Company to meet certain non-financial covenants, which were met as at December 31,2019.

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 December 31, 2019, the amount drawn from the Line of Credit amounted for $8,040,897 ($5,789,656 as at December 31, 2018) and the Company’s eligible accounts receivable and inventory amounts accounted for $3,128,951 and $4,485,110 ($1,768,319 and $5,680,957 as at December 31, 2018) respectively, for a total collateral amount of $7,614,061 ($7,449,276 as at December 31, 2018).

Subsequent Event

On March 20, 2020, in response to the coronavirus (COVID-19) outbreak, the Company announced that further to the decisions made by all its retail partners in North America, it will temporarily close all its 80 stores at the end of business on March 19, through to March 31, 2020. While the Company plans to reopen its stores on April 1, that date could be impacted by future recommendations by health and governmental authorities and retail partner actions. The Company will continue to assess new recommendations from health and governmental authorities and respond accordingly in due course.

Cash Flows

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

Cash Flow Data:	**For the year ended December 31,**	
	2019	**2018**
Cash flows used in operating activities....................	(5,314,804)	(7,346,619)
Cash flows used in investing activities	(27,029)	(2,825,765)

Cash flows provided by financing activities	6,649,508	10,001,249
Cash flows used by discontinued operations……….	(26,413)	(1,675,172)
Effect of exchange rate changes on cash……………..	(97,598)	146,441
Net (decrease) increase in cash during the year	**1,183,664**	**(1,699,866)**
Cash, beginning of year..	2,315,160	4,015,025
Cash, end of year...	**3,498,824**	**2,315,159**

Analysis of Cash Flows for the Year Ended December 31, 2019, compared to the Year Ended December 31, 2018

For the year ended December 31, 2019, *cash used in operating activities* was $5.3 million, compared to $7.3 million for the year ended December 31, 2018, resulting in a net improvement in the use of cash of $2.0 million. This increase in cash from operations was primarily attributable to the Company's focus in 2019 on cost reduction measures in SG&A, improvements in the company's sourcing activities and inventory management which resulted in improved gross margin, and the profitable revenue growth experienced in the fourth quarter of 2019.

For the year ended December 31, 2019, *cash used in investing activities* was $27,000 compared to $2.8 million for the year ended December 31, 2018, a net decrease in the use of cash for investments of approximately $2.8 million. This positive change was primarily due to a decrease in capital expenditures in 2019 as a result of the Company's fewer store openings and a reduced and more streamlined retail network.

For the year ended December 31, 2019, *cash provided by financing activities* was $6.6 million compared to $10.0 million for the year ended December 31, 2018, a net decrease in cash funding of $3.4 million. This reduction in funding was due primarily to the Company's reliance on less equity financing over this period, offset by increased borrowings from the Line of Credit to fund working capital. In 2019, the Company raised a total of $5.0 million in equity capital, approximately $9.3 million less than the $14.3 million equity raised in 2018.

As a result of the above changes, for the year ended December 31, 2019, the Company generated a *net increase in cash* of $1.2 million, compared to a net decrease in cash of $1.7 million for the year ended December 31, 2018, which resulted in an ending cash balance on December 31, 2019, of $3.5 million compared to $2.3 million on December 31, 2018.

Contractual Obligations

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

	Maturing in under 1 year $	**Maturing in 1 to 5 years** $	**Total** $
Accounts payable and accrued liabilities	5,680,331	–	5,680,331
Line of credit	8,040,897	–	8,040,897
Long-term debt	3,434	–	3,434
Other Liabilities (Lease liabilities)	373,069	1,095,592	1,468,661
	14,097,731	**1,095,592**	**15,193,323**

The Company manages its risk of failing to discharge its financial liabilities in a timely manner by factoring its operating requirements and using various financing sources, as needed.

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, 2018	12,946,484	77,200,920
Share issuance, net of issuance cost	2,728,500	12,951,167
Exercise of stock options	1,028	50,372
Balance, December 31, 2018	15,676,012	90,202,459
Share issuance, net of issuance cost	12,500,000	4,652,415
Balance, December 31, 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 December 31, 2019, 10,861,250 warrants to purchase Class B common shares of the Company are outstanding. 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.

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.

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.

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

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

The Company granted 26,000 options to purchase Class B common shares of the Company at $1.87 per common share on May 3, 2018. The options vest at 25% on the first anniversary of the grant date and yearly thereafter (on each anniversary of such date), to the fourth anniversary of the grant date and shall remain exercisable up to May 3, 2028. The Company granted an additional 50,000 options to purchase Class B Common shares of the Company at $6.50 per common share during the year 2018. These options vested immediately and remain exercisable up to December 31, 2022.

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

	2019	2018
Expected volatility	—	32% yearly
Risk-free interest rate	—	2.19%
Expected option life	—	6.25 years
Expected dividend yield	—	—

There were no stock options granted during the year ended December 31, 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:

	December 31, 2019		December 31, 2018	
	Number	Weighted average exercise price	Number	Weighted average exercise price
	#	$	#	$
Options beginning of year	287,312	2.49	281,798	1.68
Granted	-	-	76,000	4.92
Forfeited/Cancelled	(134,784)	1.70	(69,458)	1.68
Exercised	-	-	(1,028)	1.68
Outstanding, end of year	**152,528**	**3.26**	287,312	2.49
Options exercisable at end of year	**101,264**	**4.06**	157,754	3.21

The following table summarizes information about the outstanding stock options granted by the Company as at December 31, 2019:

		Options outstanding		Options exercisable
Exercise price		Number of options	Weighted average remaining contractual life	Number of options
	$	#	year	#
	1.68	102,528	7.19	51,264
	6.50	50,000	3.00	50,000
Total	**4.06**	**152,528**	**5.85**	**101,264**

The stock-based compensation expense related to stock options of $119,339 (2018 – $348,989), is recorded in the consolidated statement of loss and comprehensive loss in selling, general and administrative expenses.

ii. Deferred share unit plan
Deferred share units ("DSUs") are awarded to eligible directors under a deferred share unit plan. Under this plan, each eligible director receives a portion of his or her compensation in the form of DSUs.

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.

<u>Measurement at the grant date</u>
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 year ended December 31, 2019, the Company granted to directors 2,025,507 DSUs (406,787 in 2018) and paid to a director 123,276 DSUs (0, in 2018) for a total expense of $445,500 ($317,375 in 2018) recorded in the consolidated statement of loss and comprehensive loss in selling, general and administrative expenses.

<u>Measurement at the end of the reporting period</u>
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 December 31, 2019, the Company re-evaluated the fair value of the DSUs to be $532,244 ($107,633 as at December 31, 2018) and incurred a gain of $2,378 ($368,838 in 2018) 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 the Company with the choice of whether to settle the DSUs in cash or by issuing equity instruments and that the Company generally settles in cash.

iii. Performance share units
Performance share units ("PSUs") are awarded to eligible directors under the LTIP. Under this plan, each eligible director receives a payment in the form of the Company's Class B common shares purchased on the open market, cash, or a combination of the Company's Class B common shares purchased on the open market and cash. 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.

<u>Measurement at the grant date</u>
On November 26, 2018, the Company granted 83,333 PSUs, and recognized a compensation expense of $1,880.

<u>Measurement at the end of the reporting period</u>
As at December 31, 2019, the Company re-evaluated the value of the PSU to be $11,441 ($1,283 as at December 31, 2018) 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 2,417 ($597 in 2018) 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.

As at the date of this MD&A, there have been no changes to the Company's share capital from December 31, 2019.

Off-balance sheet arrangements

The Company has not entered into any such arrangements at December 31, 2019 and at the date of this MD&A.

Related Party Transactions

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

	December 31, 2019	December 31, 2018
	$	$
Transactions with a former commonly controlled company		
Rental expense paid to a company controlled by two former officers*	**169,425**	253,425
Transactions with a former Board director and shareholder		
Legal fees	**24,405**	240,046

* The Company's head office location is owned by a company controlled by the Company's former Chief Development Officer ("CDO") and former Chief Operating Officer ("COO"). In addition to paying rent, the Company has also guaranteed the mortgage taken on the building in which the Company leases space for its head office.

As at December 31, 2019, the Company had $0 (2018 – $52,264) of receivables from the former CDO and the former COO. Selling, general, and administrative expenses for the year ended December 31, 2019, include $6,240 related to the recovery of a receivable from the former CDO and the former COO.

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

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, revenue and expenses. Actual results may differ from the judgments made by the Company. Information about judgments that have the most significant effect on recognition and measurement of assets, liabilities, revenue and expenses are discussed below. Information about significant estimates is discussed in the following section.

a) 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. Refer to note 6 for further discussion.

During the year ended December 31, 2019, sold inventory amounting to $18,762,318 was recognized and recorded as cost of goods sold ($18,483,717 for the year ended December 31, 2018). In addition, the Company recorded an inventory write down of $312,779 ($644,220 as at December 31, 2018) and a provision for inventory obsolescence of $228,537 ($521,945 as at December 31, 2018).

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.

b) Critical judgments in applying accounting policies

Going concern assumption
In assessing whether the going concern assumption is appropriate and whether there are material uncertainties that may cast significant doubt about the Company's ability to continue as a going concern, management must estimate future cash flows for a period of at least 12 months following the end of the reporting period by considering relevant available information about the future. See "Going Concern" section above.

Impairment of non-financial assets
Management is required to make significant judgments in determining if individual retail premises in which it carries out its activities are individual cash-generating unit's (CGU), or if these units should be aggregated by retail partner to form a CGU. The significant judgment applied by management in determining that stores should be aggregated by retail partner to form a CGU is the interdependency of cash inflows and the way in which the Company and the Company's partners operate the retail premises within the CGU. Refer to note 7 in the consolidated financial statements with respect to impairment of property and equipment.

Income taxes
The Company may be subject to audits related to tax risks, and uncertainties exist with respect to the interpretation of tax regulations, changes in tax laws, and the amount and timing of future taxable income. Differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to taxable income and income tax expense already recorded.

The Company establishes provisions if required, based on reasonable estimates, for possible consequences of audits by the tax authorities. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the entity and the responsible tax authority, which may arise on a wide variety of issues.

The Company recognizes deferred income tax assets for unused tax losses and deductible temporary differences only to the extent that, in management's opinion, it is probable that future taxable income will be available against which they can be utilized. Deferred income tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

New Accounting Standards Adopted in 2019

In January 2016, the IASB released IFRS 16, Leases, which replaced IAS 17, Leases, IFRIC 4, *Determining whether an Arrangement Contains a Lease*, as well as related interpretations. IFRS 16 introduces a single lessee accounting model for lessee, which comprises 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 substantially all leases. In contrast to lessee accounting, the requirement for lessor accounting have remained largely unchanged.

The Company adopted IFRS 16 effective January 1, 2019, by using the modified retrospective approach. Under this approach, the comparative information was not restated, and continues to be reported under IAS 17 and IFRIC 4.

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

- Maintain previous assessment of whether a contract is, or contains, a lease at the date of initial application;
- Account 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; and
- Exclude initial direct costs from the measurement of the right-of-use asset at the date of initial application.

Where the Company is a lessee, IFRS 16 resulted in on-balance sheet recognition of most of its leases that were previously considered as operating leases under IAS 17, unless they met the short-term or low-value exemption.

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:

i. 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;

ii. Recognizes depreciation of right-of-use assets and interest on lease liabilities in the consolidated statement of profit or loss; and

iii. 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.

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.

For the consolidated income statement, depreciation expense on the right-of-use assets and interest expense on the lease liabilities are incurred, replacing the operating lease expense previously recognized under IAS 17 accounting.

For the consolidated statement of cash flows, the principal repayments of the lease liabilities are presented in financing activities, whereas previously operating lease payments under IAS 17 accounting were presented in operating activities.

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 commitments related to operating leases	(311,019)
Operating lease commitments disclosed as at December 31, 2018	**1,159,675**
Discounted using the Company's incremental borrowing rate at December 31, 2018	987,738
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 commitments (2 months)	14,679
(Less): short-term leases recognized on a straight-line basis as expense	(58,781)
Lease liability recognized as at January 1, 2019	**956,141**

The associated rights-of-use assets were measured at the amount equal to the lease liability, adjusted by $18,825, the prepaid lease recognized in the consolidated balance sheet as at December 31, 2018. Property and equipment increased by $974,966, and other liabilities increased by $956,141 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, 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 Interim 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.

The Company's management, under the supervision and with the participation of its Interim Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness of the Company's internal controls over financial reporting as of December 31, 2019, using the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("**COSO**") in Internal Control – Integrated Framework (2013). Based on this evaluation, management concluded that material weaknesses existed as of December 31, 2019.

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:

<u>Previously Identified Material Weakness Fully Remediated</u>

(i) Difficulty to retain sufficient internal accounting personnel to prepare and oversee financial statements reporting in accordance with IFRS

As at December 31, 2019, management concluded that the above material weakness, that was initially identified as of December 31, 2018, was fully remediated after appointing three additional Chartered Professional Accountants ("**CPA**s") to the financial reporting team, consisting of a finance manager, a financial controller, and a qualified external financial reporting consultant (the latter whose services are called upon on an "as needed" basis), with sufficient knowledge and experience in IFRS.

<u>Previously Identified Material Weaknesses Not Fully Remediated</u>

(i) Lack of integration of the Company's information technology systems and lack of access restrictions.

(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.

As at December 31, 2019, management concluded that the above material weaknesses, that were initially identified as of December 31, 2018, were not fully remediated.

Due to the Company's size and growth, the integration of sophisticated information technology systems with access restrictions, segregation of all conflicting duties, and advanced accounting software, may not always be possible and economically feasible. As a result, management has not been able to take all the necessary steps to improve and formalize the Company's internal controls over financial reporting during the year ended December 31, 2019.

Remediation Plan and Activities

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.

Management has made progress on segregating conflicting duties and the improvement of management review controls following the modifications made to the Company's financial reporting team in 2019. However, management has determined that the material weaknesses identified were not fully remediated as of December 31, 2019. Material weaknesses cannot be considered remediated until the applicable remedial controls operate for a sufficient period of time and management is able to conclude, through testing, that these controls are operating effectively.

Management 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.

Additional Information

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