LXRandCo, Inc.

Consolidated Financial Statements

As at and for the years ended December 31, 2020 and 2019

Independent auditor's report

To the Shareholders of LXRandCo, Inc.

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of LXRandCo, Inc. and its subsidiaries (together, the Company) as at December 31, 2020 and 2019, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

What we have audited
The Company's consolidated financial statements comprise:

- the consolidated statements of financial position as at December 31, 2020 and 2019;
- the consolidated statements of loss and comprehensive loss for the years then ended;
- the consolidated statements of changes in shareholders' equity for the years then ended;
- the consolidated statements of cash flows for the years then ended; and
- the notes to consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

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

Independence
We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

PricewaterhouseCoopers LLP/s.r.l./s.e.n.c.r.l.
1250 René-Lévesque Boulevard West, Suite 2500, Montréal, Quebec, Canada H3B 4Y1
T: +1 514 205 5000, F: +1 514 876 1502

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2020. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Assessment of the liquidity risk *Refer to note 1 – Corporate information, COVID-19 business update and liquidity risk, note 4 – Significant accounting judgments, estimates and assumptions, and note 21 – Financial risk management, to the consolidated financial statements*. For the year ended December 31, 2020, the Company reported net loss of $7.7 million and negative cash flows from operating activities of $1.4 million. The Company has contractual obligations, such as ongoing general and administrative expenses, to pursue the operating activities and to meet its liabilities, obligations and existing commitments (the obligations). As disclosed in the consolidated financial statements, management believes that the Company has sufficient funds to pay the obligations for the ensuing 12 months as they fall due. Management used critical judgments in developing their future cash flow estimate underlying their business plan. Assumptions used in the future cash flow estimate included e-commerce revenue growth, and the Company's ability to maintain the current and necessary level of financing. We considered this a key audit matter due to the critical judgments by management in developing the future cash flow estimate. This led to a high degree of auditor judgment, subjectivity and audit effort in performing procedures to evaluate the future cash flow estimate and the Company's liquidity risk.	Our approach to addressing the matter included the following procedures, among others: • Evaluated management's assessment of the Company's liquidity risk, which included the following: – Tested the reasonableness of the assumption of e-commerce revenue growth underlying the future cash flow estimate by comparing to current and past performance of the Company. – Performed sensitivity analysis to assess the possible impact of changes to the assumptions in developing the future cash flow estimate. – Read contractual arrangements regarding existing credit facilities and assessed the compliance with financial and non-financial covenants to determine the Company's ability to maintain the current and necessary level of financing. – Tested the underlying data used by management in developing the future cash flow estimate and recalculated the mathematical accuracy of the future cash flow estimate. • Assessed the consolidated financial statement disclosures related to the Company's liquidity risk.

Other information

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the consolidated financial statements

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

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Marc-Stéphane Pennee.

/s/PricewaterhouseCoopers LLP[1]

Montréal, Quebec
March 30, 2021

[1] CPA auditor, CA, public accountancy permit No. A123642

LXRandCo, Inc.

Consolidated statements of financial position

(in Canadian dollars)

As at

	December 31, 2020 $	December 31, 2019 $
Assets		
Current		
Cash	**7,289,957**	3,498,824
Accounts receivable *(note 5)*	**1,582,153**	3,804,461
Sales tax receivable	**128,081**	437,946
Inventory *(note 6)*	**3,691,622**	7,645,646
Right of return asset	**12,180**	73,158
Prepaid expenses and deposits	**156,897**	208,628
Income tax receivable	**19,834**	—
Total current assets	**12,880,724**	15,668,663
Property and equipment, net *(notes 7, 20)*	**948,056**	2,472,334
Intangible assets, net *(notes 8, 20)*	**58,860**	177,654
	13,887,640	18,318,651
Liabilities and shareholders' equity		
Current		
Refund liabilities	**24,020**	149,116
Accounts payable and accrued liabilities	**3,367,959**	5,680,331
Income tax payable	**—**	38,665
Deferred revenue	**93,853**	128,949
Sales taxes payable	**100,995**	39,225
Line of credit *(note 11)*	**—**	8,040,897
Current portion of long-term debt *(note 10)*	**175,000**	3,434
Current portion of other liabilities *(note 12)*	**168,900**	255,373
Total current liabilities	**3,930,727**	14,335,990
Line of credit *(note 11)*	**2,796,217**	—
Long-term debt *(note 10)*	**2,761,912**	—
Other liabilities *(note 12)*	**1,295,903**	1,290,665
Total liabilities	**10,784,759**	15,626,655
Shareholders' equity		
Share capital *(note 13)*	**101,952,732**	94,854,874
Warrants *(note 13)*	**13,511,608**	12,940,438
Contributed surplus	**1,722,991**	1,655,974
Accumulated other comprehensive gain	**469,917**	84,572
Deficit	**(114,554,367)**	(106,843,862)
Total shareholders' equity	**3,102,881**	2,691,996
	13,887,640	18,318,651

See accompanying notes

On behalf of the Board:

Director
By: (Valerie Sorbie)

Director
By: (Camillo di Prata)

LXRandCo, Inc.

Consolidated statements of loss and comprehensive loss

(in Canadian dollars)

	For the years ended December 31,	
	2020	2019
	$	$
Net revenue *(notes 15, 20)*	13,777,419	40,069,288
Cost of sales	9,466,577	27,694,255
Gross profit	**4,310,842**	**12,375,033**
Selling, general and administrative expenses *(note 16)*	10,359,037	19,212,602
Amortization and depreciation expenses *(notes 7, 8)*	622,151	1,094,133
Loss from operating activities	**(6,670,346)**	**(7,931,702)**
Finance costs *(note 23)*	606,858	485,164
Foreign exchange loss	431,567	1,467,716
Loss on investment in preferred shares *(note 9)*	—	112,682
Loss before income taxes	**(7,708,771)**	**(9,997,264)**
Income tax expense *(note 14)*		
Current	1,734	37,516
	1,734	**37,516**
Net loss from continuing operations	**(7,710,505)**	**(10,034,780)**
Net loss from discontinued operations *(note 17)*	—	(382,846)
Net loss	**(7,710,505)**	**(10,417,626)**
Other comprehensive gain		
Cumulative translation adjustment	385,345	1,351,530
Comprehensive loss	**(7,325,160)**	(9,066,096)
Loss per share *(notes 17, 19)*		
Total basic and fully diluted for the year	(0.24)	(0.45)
From continuing operations - basic and fully diluted	(0.24)	(0.43)
Weighted average number of shares outstanding – basic and fully diluted	32,222,655	23,302,138

See accompanying notes

LXRandCo, Inc.

Consolidated statements of changes in shareholders' equity

(in Canadian dollars)

	Share capital	Warrants	Contributed surplus	Cumulative translation adjustment	Deficit	Total shareholders' equity
	$	$	$	$	$	$
Balance as at January 1, 2019	90,202,459	12,940,438	1,536,635	(1,266,958)	(96,426,236)	6,986,338
Net loss for the period	—	—	—	—	(10,417,626)	(10,417,626)
Stock-based compensation expense *(note 13)*	—	—	119,339	—	—	119,339
Cumulative translation adjustment	—	—	—	1,351,530	—	1,351,530
Class B common shares issued *(note 13)*	5,000,000	—	—	—	—	5,000,000
Equity issuance costs *(note 13)*	(347,585)	—	—	—	—	(347,585)
Balance as at December 31, 2019	94,854,874	12,940,438	1,655,974	84,572	(106,843,862)	2,691,996
Net loss for the period	—	—	—	—	**(7,710,505)**	**(7,710,505)**
Stock-based compensation expense *(note 13)*	—	—	**67,017**	—	—	**67,017**
Cumulative translation adjustment	—	—	—	**385,345**	—	**385,345**
Class B common shares issued *(note 13)*	**7,735,080**	—	—	—	—	**7,735,080**
Warrants issued *(note 13)*	**—**	571,170	—	—	—	**571,170**
Equity issuance costs *(note 13)*	**(637,222)**	—	—	—	—	**(637,222)**
Balance as at December 31, 2020	**101,952,732**	**13,511,608**	**1,722,991**	**469,917**	**(114,554,367)**	**3,102,881**

See accompanying notes

LXRandCo, Inc.

Consolidated statements of cash flows

(in Canadian dollars)

Years ended December 31	2020	2019
	$	$
Operating activities		
Net loss from continuing operations	**(7,710,505)**	(10,034,780)
Non-cash items:		
Depreciation of property and equipment	**485,318**	812,053
Amortization of intangible assets	**136,833**	282,081
Amortization of deferred financing costs	**15,658**	—
Stock-based compensation expense	**267,372**	572,620
Write-off of property and equipment	**1,049,930**	—
Loss (gain) on disposition of property and equipment	**(282)**	992,627
Loss on investment in preferred shares	**—**	112,682
Write-off of long-term debt	**—**	(9,600)
Unrealized foreign exchange (gain) loss on non-monetary assets	**(13,905)**	2,806
	(5,769,581)	(7,269,511)
Net change in non-cash working capital balances related to operations	**4,320,487**	1,954,705
Cash flows used in operating activities	**(1,449,094)**	(5,314,806)
Investing activities		
Acquisitions of intangible assets	**(18,039)**	(6,375)
Acquisitions of property and equipment	**(5,508)**	(20,653)
Proceeds on disposal of property and equipment	**32,899**	—
Cash flows from (used in) investing activities	**9,352**	(27,028)
Financing activities		
Net increase (decrease) of line of credit	**(5,257,032)**	2,251,241
Payment of lease liabilities	**(239,946)**	(194,252)
Repayment of long-term debt	**(6,740)**	(59,895)
Proceeds from issuance of long-term debt	**2,936,912**	—
Proceeds from issuance of class B common shares	**7,735,080**	5,000,000
Proceeds from issuance of warrants	**571,170**	—
Equity issuance costs	**(637,222)**	(347,585)
Cash flows from financing activities	**5,102,222**	6,649,509
Cash flows from discountinued operations *(note 17)*	**—**	(26,413)
Effect of exchange rate changes on cash on operating activities	**128,653**	(97,598)
Net increase in cash	**3,791,133**	1,183,664
Cash, beginning of year	**3,498,824**	2,315,160
Cash, end of year	**7,289,957**	3,498,824
Supplementary information (as reported in operating activities)		
Corporate tax paid	**28,708**	17,954
Interest paid	**253,467**	266,912

See accompanying notes

Notes to the consolidated financial statements

(in Canadian dollars)

December 31, 2020 and 2019

1. Corporate information, COVID-19 business update and liquidity risk

LXRandCo, Inc. (“LXRandCo” or the “Company”) is a North-American omni-channel retailer of branded pre-owned handbags and accessories. LXRandCo sources and authenticates high-quality pre-owned products and sells them through retail and wholesale operations 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, which houses the product preparation and sourcing teams and serves as a distribution center for North American shipments.

As at December 31, 2020, LXRandCo’s retail operations included 10 stores all of which were located in Canada. On December 31, 2020, due to the coronavirus (“COVID-19”) pandemic and the ensuing government-imposed lockdowns, only three of the Company’s 10 stores were in operation. On January 1, 2020, the Company had 80 stores in operation. During the year, the adverse effects of the pandemic caused three of the Company’s long-time U.S.-based retail channel partners to file for creditor protection under Chapter 11 of the Bankruptcy Code in the United States, which permanently decreased the Company’s North American store network by 70 stores.

During the year ended December 31, 2020, the Company incurred a net loss of $7,710,505 (2019 – net loss of $10,417,626) and had negative operating cash flow of $1,449,094 (2019 – $5,314,806). In addition, as at December 31, 2020, the Company had a working capital surplus of $8,949,997 (2019 – $1,332,673) and an accumulated deficit of $114,554,367 (2019 – $106,846,862).

During the year ended December 31, 2020, the Company completed a $3,587,500 financing of which $3,000,000, in the form of a three-year term loan, came from the Business Credit Availability Program COVID-19 relief program offered by the Federal Government (the “**BCAP Loan**”) (see note 10) and $587,500 through a private placement of the Company’s Class B shares. Concurrent with the closing of the BCAP Loan, the Company renewed its $12.5 million line of credit (see note 11) for an additional three-year term until May 25, 2023. On December 23, 2020, the Company completed an additional private placement of Class B shares, which generated gross proceeds of $7,500,000.

Accordingly, the Company believes that it has sufficient funds to pay its ongoing general and administrative expenses, to pursue the operating activities and to meet its liabilities, obligations and existing commitments for the ensuing twelve months as they fall due. The Company’s ability to continue future operations beyond December 31, 2021 is dependent on management’s ability to deliver on its business plan, supported by its future cash flow estimate, comprised mainly of assumptions related to e-commerce revenue growth, and to maintain the current and necessary level of financing. If and when required, management will pursue additional sources of financing, and while management has been successful in securing financing 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.

The preparation of these financial statements requires management to undertake a number of judgments and estimates about the recognition and measurement of assets, liabilities, revenues, and expenses, which includes relying on the going concern assumption.

These judgments and estimates are based on management's historical experience and other assumptions which the Company believes to be reasonable, acknowledging that the extent to which the impacts of the COVID-19 pandemic affect the judgments and estimates described herein depend on future developments, which are highly uncertain and cannot be predicted. Management will continue to monitor and assess the impact of the pandemic on its judgments, estimates, accounting policies and amounts recognized in these consolidated financial statements.

2. Summary of significant accounting policies

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

The consolidated financial statements have been prepared on a historical cost basis, except for the convertible redeemable preferred shares, deferred share units and performance share units that were measured at fair value during December 31, 2020 and 2019, as explained in the accounting policies.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 4.

These consolidated financial statements were authorized for issuance by the Company's Board of Directors (the ''**Board**'') on March 29, 2021.

Basis of consolidation

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

Name	Ownership
LXR Luxury Products International Inc.	100%
LXR Canada Inc.	100%
LXR Luxe, Inc.	100%
Groupe Global LXR Inc. and its wholly owned subsidiary LXR & Co Inc.	100%

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

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

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

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

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

Functional currency

The consolidated financial statements are presented in Canadian dollars, which is also the functional currency of the Company.

Foreign currency translation

Transactions in foreign currencies are initially recorded by the Company and its subsidiaries at their respective functional currency rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at exchange rates prevailing at the financial position date. Unrealized and realized translation gains and losses are reflected in net loss.

The assets and liabilities of the Company's foreign wholly owned subsidiaries are translated into Canadian dollars at the exchange rates in effect at the consolidated statement of financial position date. Revenue and expenses are translated at exchange rates prevailing at the dates of the transactions. Translation gains and losses are included in other comprehensive loss (OCL).

On disposal of foreign operations, the component of OCL relating to the particular foreign operations is recognized in the consolidated statement of loss and comprehensive loss.

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

Cash

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

Inventory

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

Property and equipment

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

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

Furniture and equipment	5 years
Computer equipment	3 years
Rolling stock	3 years
Right-of-use assets	Lease Term

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

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

Intangible assets

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

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

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

Software	2 to 3 years
Website	3 years

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

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

Impairment of non-financial assets

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

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

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased and if there has been a change in the assumptions used to determine an asset's recoverable amount. A reversal is limited to the extent that an asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, had no impairment loss been recognized. Such reversal is recognized in net loss.
Goodwill represents the excess of the cost of an acquisition over the fair value of the identifiable net assets acquired at the date of acquisition. Goodwill is carried at cost less accumulated impairment losses and is tested for impairment at least annually and when circumstances indicate that the carrying value may be impaired. For purposes of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Company's CGUs that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Leases

The Company enters 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 the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Company as a lessee

The Company recognizes lease liabilities with corresponding right-of-use assets at the lease commencement date, for substantively all lease agreements.

The right-of-use assets are initially measured at cost, comprised of the initial measurement of the corresponding lease liabilities, adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred, as well as an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. If it is reasonably certain that the Company will obtain ownership by the end of the lease term, the leased asset is depreciated over its useful life.

In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liabilities are initially measured at the present value of the lease payments at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the lessee's incremental borrowing rate. Lease payments included in the measurement of the lease liabilities comprise:

- Fixed (including in-substance fixed) lease payments, less any lease incentives;
- Variable lease payments that depend on an index or rate;
- Amounts expected to be payable under residual value guarantees;
- The exercise price under a purchase option that the Company is reasonably certain to exercise;
- Lease payments in an optional renewal period that the Company is reasonably certain to exercise; and
- Penalties for early termination of a lease if the Company is reasonably certain to terminate.

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.

Interest on the lease liability in each period during the lease term shall be the amount that produces a constant periodic rate of interest on the remaining balance of the lease liability.

Short-term leases and leases of low-value assets

The Company recognizes the payments associated with short-term leases and leases of low-value assets as an expense on a straight-line basis over the lease term.

Store opening and store closing costs

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

Provisions

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

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

Share capital

Common shares

Common shares, which include an unlimited number of Class B common shares (note 13), are classified as equity. Incremental costs directly attributable to the issue of common shares are recognized as a deduction from equity, net of any tax effects.

Stock-based compensation

i. Employee stock-based compensation

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

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

Compensation expense is recognized over the vesting period of the stock options as an expense included in selling, general and administrative expenses, with a corresponding increase to contributed surplus in equity. The amount recognized as an expense is adjusted to reflect the Company’s best estimate of the number of awards that will ultimately vest.

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

ii. Non-employee stock-based compensation

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

iii. Cash-settled transactions

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

Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods in the ordinary course of the Company's activities. Revenue is recorded net of discounts, rebates, estimated returns and sales taxes.

i. Retail Stores and e-Commerce sales

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

The Company provides retail store customers with a minimal right to return within a specified period for store credit only. The Company provides e-Commerce customers a minimal right to return within a specified period for store credit or cash refund. Under IFRS 15, rights of return give rise to variable consideration. The variable consideration is estimated at contract inception and constrained until the associated uncertainty is subsequently resolved.

ii. Wholesale sales

Revenue from wholesale activities is recognized when the order is received by the partner when using the Company's carrier, and recognized upon shipment of the order when using the partner's carrier. The Company grants the right of returns to wholesale customers on a limited and selected basis.

The Company records a provision for sales returns based on historical experience. The Company presents a refund liability and an asset for the right to recover products from a customer separately in the consolidated statement of financial position.

Income taxes

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

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

The Company uses the liability method of accounting for deferred income taxes, which requires the establishment of deferred income tax assets and liabilities for all temporary differences caused when the tax bases of assets and liabilities differ from their carrying amounts reported in the consolidated financial statements. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the temporary differences when they reverse, based on tax rates that have been enacted or substantively enacted at the end of the reporting period. The Company recognizes deferred income tax assets for unused tax losses and deductible temporary differences only to the extent that, in management's opinion, it is probable that future taxable income will be available against which they can be utilized. Deferred income tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

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

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

Earnings (loss) per share

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

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

Financial instruments

Recognition and Initial Measurement

Financial assets and financial liabilities are recognized in the consolidated statement of financial position when the Company becomes a party to the contractual provisions of a financial instrument or non-financial derivative contract. All financial instruments are measured at fair value on initial recognition.

Transaction costs that are directly attributable to the acquisition or issuance of financial assets and financial liabilities, other than financial assets and financial liabilities classified as FVTPL, are added to or deducted from the fair value on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities classified as FVTPL are recognized immediately in net loss.

Classification and Subsequent Measurement

The Company classifies financial assets, at the time of initial recognition, according to the Company's business model for managing the financial assets and the contractual terms of the cash flows. Financial assets are classified in the following measurement categories: a) amortized cost and b) fair value through profit or loss.

Financial Instruments at Amortized Cost

Financial assets are subsequently measured at amortized cost if both the following conditions are met and they are not designated as FVTPL:

- the financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

These assets are subsequently measured at amortized cost using the effective interest method and are subject to impairment. Gains and losses are recognized in profit or loss when the asset is derecognized, modified or impaired.

Financial liabilities are subsequently measured at amortized cost using the effective interest rate method with gains and losses recognized in net loss in the period that the liability is derecognized, except for financial liabilities classified as FVTPL. These financial liabilities are subsequently measured at fair value with changes in fair value recorded in net loss in the period in which they arise.

Impairment of Financial Instruments
The Company assesses on a forward-looking basis the expected credit losses associated with its debt instruments carried at amortized cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Company applies a simplified approach in calculating expected credit losses (ECLs) based on lifetime ECLs at each reporting date. Lifetime ECL represents the expected credit losses that will result from all probable default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. The Company assumes that there is no significant increase in credit risk for instruments that have a low credit risk.

Derecognition of Financial Instruments
A financial asset is derecognized when the contractual rights to the cash flows from the asset expire or when the Company transfers the financial asset to another party without retaining control or substantially all the risks and rewards of ownership of the asset. Any interest in transferred financial assets created or retained by the Company is recognized as a separate asset or liability.

A financial liability is derecognized when its contractual obligations are discharged, cancelled, or expire.

Discontinued operations

A discontinued operation is a component of the Company's business that represents a separate major line of business or geographical area of operations that has been disposed of or meets the criteria to be classified as held for sale.

Discontinued operations are presented in the consolidated statement of loss and comprehensive loss as a separate line and are shown net of tax.

3. Changes in accounting principles

Amendments to IAS 1, Presentation of Financial Statements

On January 23, 2020, the IASB issued narrow-scope amendments to IAS 1, Presentation of Financial Statements, to clarify how to classify debt and other liabilities as current or non-current. The amendments (which affect only the presentation of liabilities in the statement of financial position) clarify that the classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period to defer settlement by at least twelve months and make explicit that only rights in place at the end of the reporting period should affect the classification of a liability; clarify that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability; and make clear that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets, or services. The amendments are effective for annual reporting periods beginning on or after January 1, 2022 and are to be applied retrospectively. Earlier application is permitted. The Company is currently evaluating the impact of the amendment on its consolidated financial statements.

4. 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, 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 source 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.

b) Critical judgments in applying accounting policies

Going concern

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. Among other things, at present time these cash flow estimates are also dependent on the expected duration and economic impact of the COVID-19 pandemic, the Company's achievement of its annual budget under these circumstances and compliance with financial and non-financial covenants dictated by the Company's loan agreemeents. These judgments and estimates are based on management's historical experience and other assumptions which the Company believes to be reasonable, acknowledging that the extent to which the impact of COVID-19 affects the judgments and estimates described herein depend on future developments, which are highly uncertain and cannot be predicted. As actual results may differ from the judgments and estimates made by management, and actual results will seldom equal estimates, these cash flows are subject to uncertainty. Management has concluded that there are no material uncertainties related to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern for at least the next twelve months.

(in Canadian dollars)

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 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.

5. Accounts receivable

	December 31, 2020	**December 31, 2019**
	$	$
Trade receivables	**2,216,662**	3,804,461
Allowance for doubtful accounts	**(669,897)**	-
Grant receivables	**35,388**	-
	1,582,153	3,804,461

(in Canadian dollars)

Trade receivables are non-interest bearing and are generally due on terms of up to 60 days in 2020 (30 days in 2019). As at December 31, 2020, trade receivables of an initial value of $56,839 (2019 – $1,261,038) were past due but not impaired.

The change in the allowance for doubtful accounts is detailed below:

	December 31, 2020	December 31, 2019
	$	$
Balance at beginning of the year	-	335,015
Change in allowance, other than writes-offs and recoveries	**669,897**	(110,612)
Recoveries of trade receivables	-	(224,403)
Balance at end of year	**669,897**	-

6. Inventory

During the year ended December 31, 2020, inventory totalling $6,570,062 was recognized in cost of goods sold (2019 – $18,762,318). In addition, the Company recorded an inventory write down of $211,884 (2019 – $312,779), and a provision for inventory obsolescence amounting to $171,952 (2019 – $228,537).

(in Canadian dollars)

7. Property and equipment

	Furniture and equipment $	Computer equipment $	Rolling stock $	Leasehold improvements $	Right-of-use assets $	Total $
Cost						
Balance December 31, 2018	3,891,959	289,136	54,653	214,344	–	4,450,092
Change in accounting policy	**–**	**–**	**–**	**–**	**974,966**	**974,966**
Acquisitions	**7,883**	**1,300**	**–**	**5,000**	**240,464**	**254,647**
Disposals	**(1,687,787)**	**(153,875)**	**–**	**–**	**–**	**(1,841,662)**
Cumulative translation adjustment	**(119,583)**	**(3,544)**	**–**	**–**	**–**	**(123,127)**
Balance December 31, 2019	**2,092,472**	**133,017**	**54,653**	**219,344**	**1,215,430**	**3,714,916**
Acquisitions	**–**	**5,508**	**–**	**–**	**–**	**5,508**
Disposals	**–**	**(5,402)**		**–**	**–**	**(5,402)**
Write-off	**(1,758,483)**	**(25,952)**	**(54,653)**	**–**	**(120,232)**	**(1,959,320)**
Cumulative translation adjustment	**55,973**	**(63)**	**–**	**–**	**–**	**55,910**
Balance December 31, 2020	**389,962**	**107,108**	**–**	**219,344**	**1,095,198**	**1,811,612**

	Furniture and equipment $	Computer equipment $	Rolling stock $	Leasehold improvements $	Right-of-use assets $	Total $
Accumulated depreciation						
Balance December 31, 2018	1,075,489	189,027	48,289	4,265	–	1,317,070
Depreciation	**505,669**	**56,523**	**6,364**	**22,902**	**220,595**	**812,053**
Disposals	**(708,053)**	**(143,794)**	**–**	**–**	**–**	**(851,847)**
Cumulative translation adjustment	**(32,095)**	**(2,599)**	**–**	**–**	**–**	**(34,694)**
Balance December 31, 2019	**841,010**	**99,157**	**54,653**	**27,167**	**220,595**	**1,242,583**
Depreciation	**175,123**	**32,739**	**–**	**21,793**	**255,663**	**485,318**
Disposals	**–**	**(5,022)**		**–**	**–**	**(5,022)**
Write-off	**(718,139)**	**(24,150)**	**(54,653)**	**–**	**(80,155)**	**(877,097)**
Cumulative translation adjustment	**18,272**	**(497)**	**–**	**–**	**–**	**17,775**
Balance December 31, 2020	**316,266**	**102,227**	**–**	**48,960**	**396,103**	**863,556**

	Furniture and equipment $	Computer equipment $	Rolling stock $	Leasehold improvements $	Right-of-use assets $	Total $
Net carrying value						
Balance, December 31, 2019	1,251,462	33,860	–	192,177	994,835	2,472,334
Balance December 31, 2020	**73,696**	**4,881**	**–**	**170,384**	**699,095**	**948,056**

Property and equipment with a net book value of $1,082,604 was written-off during the year. This asset write-off was primarily related to furniture, equipment and computer equipment associated with the United States store network of the Company that is no longer required due to their permanent closure. No impairment of property and equipment was recorded during the year ended December 31, 2019. During the year ended December 2020, the Company incurred a gain on disposition of property and equipment of $282 (2019 – loss of $989,815).

Notes to the consolidated financial statements

(in Canadian dollars)

December 31, 2020 and 2019

8. Intangible assets

	Software $	Website $	Total $
Cost			
Balance, December 31, 2018	**850,727**	**440,321**	**1,291,048**
Acquisitions	6,375	–	6,375
Write-off	(16,679)	(429,568)	(446,247)
Cumulative translation adjustment	–	(10,753)	(10,573)
Balance, December 31, 2019	**840,423**	**–**	**840,423**
Acquisitions	**-**	**18,039**	**18,039**
Balance, December 31, 2020	**840,423**	**18,039**	**858,462**

	Software $	Website $	Total $
Accumulated amortization			
Balance, December 31, 2018	570,522	257,826	828,348
Amortization	279,964	2,117	282,081
Write-off	(187,717)	(249,190)	(436,907)
Cumulative translation adjustment	**–**	(10,753)	(10,753)
Balance, December 31, 2019	662,769	-	662,769
Amortization	**133,641**	**3,192**	**136,833**
Balance, December 31, 2020	**796,410**	**3,192**	**799,602**

	Software $	Website $	Total $
Net carrying value			
Balance, December 31, 2019	177,654	-	177,654
Balance, December 31, 2020	**44,013**	**14,847**	**58,860**

9. Other assets

	December 31, 2020 $	December 31, 2019 $
Investment in preferred shares	-	112,682
Allowance for loss on investment in preferred shares	-	(112,682)
	-	-

As at December 31, 2019, an Investment in preferred shares of an initial value of $112,682 was reduced to nil to reflect its fair value.

Notes to the consolidated financial statements

(in Canadian dollars)

December 31, 2020 and 2019

10. Long-term debt

On May 25, 2020, the Company entered into a non-revolving term loan with a Canadian chartered bank under the Government of Canada's Business Credit Availability Program administered by Business Development Bank of Canada to provide additional liquidity support to Canadian businesses and entrepreneurs facing economic hardship as a result of COVID-19. The BCAP Loan consists of a non-revolving credit facility for a principal amount of $3,000,000.

The BCAP Loan bears interest at the bank's prime rate (2.45% as at December 31, 2020) plus an applicable margin of 3.00%. The BCAP Loan shall amortize over a period of 10 years beginning on the first anniversary of the BCAP Loan, with consecutive monthly payments of principal in an amount of $25,000 starting on June 1, 2021. During the year, the Company incurred financing costs of $66,394 which were deferred and included in the BCAP loan. The amortization expense of these deferred costs is included in finance costs. The BCAP loan matures on May 25, 2023.

11. Line of credit

On June 14, 2017, the Company entered into a credit agreement with a Canadian chartered bank (the "**Line of Credit**"). On May 25, 2020, concurrent with the closing of the BCAP Loan, the Company also renewed the Line of Credit for an additional three-year term until May 25, 2023. The Line of Credit consists of a revolving credit facility for an authorized amount of up to $12,500,000, subject to a maximum draw based on a borrowing base formula.

The Line of Credit bears interest at (a) the bank's prime rate (2.45% as at December 31, 2020 and 3.95% as at December 31, 2019) or U.S. base rate if denominated in U.S. dollars (3.25% as at December 31, 2020 and 4.75% as at December 31, 2019) plus an applicable margin of 1.00%, or (b) the banker's acceptance rate (0.46% as at December 31, 2020 and 2.08% as at December 31, 2019), plus an applicable margin of 2.50% or (c) LIBOR (0.15% as at December 31, 2020 and 1.80% as at December 31, 2019) plus an applicable margin of 2.50%, at the Company's option. During the year, the Company incurred financing costs of $66,394 which were deferred and included in the line of credit. The amortization expense of these deferred costs is included in finance costs.

The Line of Credit requires the Company to regularly offset any excess cash on hand against its outstanding loan balance. While this requirement minimizes the amount of the Company's loan obligations, thus reducing overall financing costs, the Company's reported cash balance (as noted below) is no longer solely indicative of the full extent of the cash resources available to it, thus making a comparison of cash on hand with other periods not relevant.

The Line of Credit is subject to a maximum draw based on a borrowing base formula calculated as a percentage of eligible accounts receivable and eligible inventory as defined in the credit agreement. As at December 31, 2020, the amount drawn from the Line of Credit was $2,850,859 (2019 – $8,040,897) as compared to the Company's total collateral of $3,100,247 (2019 – $7,614,061), which is made up of eligible accounts receivable and inventory totalling of $1,228,506 and $1,871,741 respectively (2019 – $3,128,951 and $4,485,110). Given this, the Company's additional borrowing availability under the Credit Line at the end of December 31, 2020 (i.e. total collateral less the amount drawn) was $44,468, which together with the Company's reported cash on hand, provided available cash resources of $7,334,825.

(in Canadian dollars)

The Line of Credit requires the Company to meet certain financial covenants which were met as at December 31, 2020.

12. Other liabilities

	December 31, 2020	December 31, 2019
	$	$
Lease liabilities	**720,763**	1,002,353
Stock-based compensation	**744,040**	543,685
Total other liabilities	**1,464,803**	1,546,038
Current portion	**168,900**	255,373
	1,295,903	1,290,665

13. 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, December 31, 2019	28,176,012	94,854,874
Share issuance, net of issuance cost	64,607,143	7,097,858
Balance, December 31, 2020	**92,783,155**	**101,952,732**

On June 4, 2020, concurrent with the closing of the BCAP Loan, and at the request of the Company's lenders, the Company completed a private placement of Class B common shares, whereby the Company issued 4,607,143 Class B common shares at a price of $0.175 per share for gross proceeds of $806,250. The Company incurred $67,987 of share issuance costs that were recorded as a reduction of the related equity proceeds.

On December 23, 2020, the Company completed a private placement of 60,000,000 units with each unit consisting of one Class B share in the capital of the Company and one-quarter of one Class B share purchase warrant in the capital of the Company at a price of $0.125 per unit for gross proceeds of $7,500,000. The Company incurred $569,235 of share issuance costs and recorded fair value of $571,170 related to warrants issued which were recorded as a reduction of the related equity proceeds.

b) Forfeitable founders' shares

Included in the balance of outstanding Class B common shares in the capital of the Company 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, 2020, a total of 28,879,250 warrants is outstanding.

As at January 1, 2020, 10,861,250 warrants to purchase Class B common shares of the Company were outstanding (the "2017 Warrants"). Each 2017 Warrant became exercisable 30 days after the completion of the 2017 qualifying acquisition (the **"LXR Acquisition**") on June 9, 2017, to purchase one Class B common share at an exercise price of $11.50 per share. The 2017 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 2017 Warrants was established at $12,940,438 at the LXR Acquisition date.

On December 23, 2020, the closing date of the $7.5 million private placement, 15,000,000 warrants (the "2020 Warrants") to purchase Class B common shares of the Company were issued and are currently outstanding. Each 2020 Warrant is exercisable into one Class B Share at a price of $0.175 per share. The 2020 Warrants are subject to an accelerated expiry if, following the date that is four months and one day after the date of issuance of the units and prior to the expiry date of the 2020 Warrants, the daily volume weighted average trading price of the Class B Shares exceeds $0.35 for ten consecutive trading days. The intrinsic value of the 2020 Warrants was established at $375,000 at closing date of the private placement.

As part of the financing described above, the Company also issued 2,414,400 broker warrants to the lead agent of the private placement, which will expire 24 months from the closing date to purchase 2,414,400 additional units at the unit price of $0.125 (the "**Broker Warrants**"). The Broker Warrants are exercisable into 2,414,400 Class B common shares and 603,600 2020 Warrants, with each warrant exercisable into one Class B Share at a price of $0.175 per share. The Broker Warrants are subject to an accelerated expiry if, following the date that is four months and one day after the date of issuance of the units and prior to the expiry date of the warrants, the daily volume weighted average trading price of the Class B Shares exceeds $0.35 for ten consecutive trading days. The fair value of the Broker

(in Canadian dollars)

Warrants was established at $181,080 and the intrinsic value of the 603,600 2020 Warrants was established at $15,090 at closing date of the brokered private placement.

d) Long-term Incentive Plan

As set forth below, the Company's long-term incentive plan ("**LTIP**") is an option-based and share-based compensation plan for directors, executive officers, and key employees and consultants, which was approved by the Board in 2017 and approved by the Toronto Stock Exchange (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.

The Company granted 137,500 stock options to employees to purchase Class B common shares of the Company at $0.40 per common share. The options vest at 33.33% on the first anniversary of the grant date and yearly thereafter (on each anniversary of such date), to the third anniversary of the grant date and shall remain exercisable up to March 24, 2030. The Company granted an additional 100,000 stock options to consultants to purchase Class B common shares of the Company at $0.20 per common share. The options vest at 33.33% on the first anniversary of the grant date and yearly thereafter (on each anniversary of such date), to the third anniversary of the grant date and shall remain exercisable up to December 10, 2030.

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:

	2020
Expected volatility	32%
Risk-free interest rate	0.64%-0.81%
Expected option life	6.25 years
Expected dividend yield	—

The weighted average grant-date fair value related to the stock options granted during the year ended December 31, 2020 amounted to approximately $0.038 per option. There were no stock options granted during the year ended December 31, 2019.

(in Canadian dollars)

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

	December 31, 2020		December 31, 2019	
	Number #	**Weighted average exercise price** $	**Number** #	**Weighted average exercise price** $
Options beginning of year	152,528	3.26	287,312	2.49
Granted	237,500	0.32	-	-
Forfeited/Cancelled	-	-	(134,784)	1.70
Outstanding, end of year	**390,028**	**1.47**	152,528	3.26
Options exercisable at end of year	**126,896**	**3.58**	101,264	4.06

The following table summarizes information about the outstanding stock options granted by the Company as at December 31, 2020:

		Options outstanding		Options exercisable
	Exercise price	**Number of options**	**Weighted average remaining contractual life**	**Number of options**
	$	#	year	#
	1.68	102,528	6.19	76,896
	6.50	50,000	2.00	50,000
	0.40	137,500	9.23	-
	0.20	100,000	9.95	-
Total	**3.58**	**390,028**	**5.14**	**126,896**

The stock-based compensation expense related to stock options of $67,017 (2019 – $119,339), 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 director compensation in the form of DSUs.

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

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 year ended December 31, 2020, the Company granted to directors 1,625,481 DSUs (2019 – 2,025,507) for a total expense of $377,750 (2019 – $445,500) 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 December 31, 2020, the Company re-evaluated the fair value of the DSUs to be $729,363 (2019 – $532,244, which included a revaluation of $240,140 related to the remuneration of the office of the president that was reclassed in cash-settled units in 2020) and incurred a gain of $59,510 (2019 – $2,378) 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 was been approved by the Board in 2017 and approved by both the TSX and the Company's shareholders on May 11, 2018.

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
During the year, 55,555 PSUs were cancelled and the remaining 27,778 PSUs of $6,111 were paid out in cash. As at December 31, 2020, there was no PSUs granted and the fair value was nil (2019 - $11,441). As a result, the Company incurred a non-cash gain of $11,015 (2019 – expense $2,417) which it recorded in the Company's consolidated statement of loss and comprehensive loss under 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.

e) Cash-Settled Units

On September 25, 2019, to accelerate the necessary strategic changes required within the Company, the Board approved the formation of a two-person "**Office of the President**" composed of two directors, the Board Chair and the Chair of the Compensation and Nominating Committee (who serves as the Company's interim Chief Executive Officer). In lieu of salary, the Office of the President is compensated with Cash-Settled Units ("**CSUs**"), which were implemented by the Board as a way to align the long-term interests of the Office of the President (the "**CSU Participants**") with those of shareholders. On a monthly basis, CSU Participants receive CSUs based on the value of the Company's shares at that time. CSUs become due and payable only after a CSU Participant ceases to either serve as a director, or be employed or retained by the Company.

The plan was approved by the Board in April 2020 with retroactive application to September 25, 2019.

Measurement at the grant date
The number of CSUs granted is determined based on the value of the Company's shares based on the volume-weighted average price of the shares on the TSX for the five trading days immediately preceding monthly settlement.

During the year, the Company granted 59,906 CSUs (2019 – nil).

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

(in Canadian dollars)

CSUs are presented as other liabilities in the consolidated statement of financial position, as the terms of the CSU plan provides the Company with the choice of either settling the CSU obligations in cash or by issuing equity instruments. As at December 31, 2020, the Company re-evaluated the fair value of the CSUs to be $14,677 (2019 – nil as the revaluation of $240,140 related to the remuneration of the office of the president was included in DSUs plan). During the year, the Company made cash payments totalling $745,000 (which $200,000 related to 2019 remuneration) to the members of the Office of the President, which was subsequently fully re-invested by them into Class B shares of the Company.

14. Income taxes

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

	December 31, 2020	December 31, 2019
	$	$
Income tax at statutory rate of 26.5% (26.6% in 2019)	**(2,045,941)**	(3,930,316)
Impact of foreign tax rate differences	**(51,742)**	(61,943)
Permanent differences	**104,727**	253,405
Accrual to return	**102,829**	(534,905)
Valuation allowance	**1,836,980**	4,196,646
Foreign countries other taxes	**22,014**	32,644
Other	**32,867**	81,985
	1,734	37,516

Notes to the consolidated financial statements

(in Canadian dollars)

December 31, 2020 and 2019

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

	December 31, 2020	December 31, 2019
	$	$
Deferred income tax assets		
Financing fees	**717,632**	1,039,616
Net-operating losses	**13,281,663**	11,569,493
Accrued compensation	**145,164**	72,487
Other Canadian and US tax attributes	**200,155**	203
Lease obligation	**191,002**	-
Valuation allowance	**(14,389,034)**	(12,493,747)
Total deferred income tax assets	**146,582**	188,052
Deferred income tax liabilities		
Carrying values of property and equipment in excess of tax basis	**(141,672)**	(183,142)
Tax payable on investment tax credits	**(4,910)**	(4,910)
Total deferred income tax liabilities	**(146,582)**	(188,052)
Net deferred income tax liabilities	**–**	–

As at December 31, 2020, the Company's U.S. subsidiaries have federal accumulated losses amounting to $18,091,891 (US$14,209,779). As at December 31, 2020, the Company's U.S. subsidiaries have state accumulated losses amounting to $17,276,023 (US$13,568,978). Federal losses generated prior to 2018 tax year will expire between 2032 and 2037. Federal losses generated in 2018, 2019 and 2020 will not expire, but are subject to an annual limitation when utilized. The benefits of these tax losses have not been recorded in the consolidated financial statements.

As at December 31, 2020, the Company's Canadian subsidiaries have accumulated losses amounting to $31,099,570 that expire between 2034 and 2040. As at December 31, 2020, the Company's Canadian subsidiaries have deductible financing fees amounting to 2,825,177 which will be fully deducted by 2024. The benefits of these tax losses have not been recorded in the consolidated financial statements.

Notes to the consolidated financial statements

(in Canadian dollars)

December 31, 2020 and 2019

15. Revenue

The Company has determined that as an omni-channel retailer of pre-owned goods, it conducts its activities in a single industry segment being the only operating segment it uses to evaluate performance and allocate resources. The operating segment includes sales from the Company's retail and wholesale channels and online through its website and partners websites. The following table disaggregates the Company's revenues through these two primary channels:

	December 31, 2020	December 31, 2019
	$	$
Retail and wholesale	**9,397,696**	36,344,800
E-Commerce	**4,379,723**	3,724,488
	13,777,419	40,069,288

16. Selling, general and administrative expenses

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

	December 31, 2020	**December 31, 2019**
	$	$
Wages, salaries and employee benefits	**4,167,049**	13,151,103
Professional fees	**969,108**	1,928,424
Stock-based compensation	**1,018,483**	572,620
Bad debt expense (recovery)	**703,725**	(224,403)
Store-related opening and closing costs	**11,856**	130,714
Reporting issuer costs	**145,628**	282,704
Loss (gain) on disposal of property and equipment	**(282)**	983,027
Write-off of property and equipment	**1,049,930**	-
Travel and entertainment	**91,705**	529,092
Advertising and promotion	**838,897**	440,579
Transportation	**644,522**	580,392
Others	**718,416**	838,350
	10,359,037	19,212,602

During the year ended December 31, 2020, the Company recognized COVID-19 related payroll subsidies totaling $391,563 principally under the Federal Government's Canadian Emergency Wage Subsidy program. These subsidies were recorded as a reduction in the associated personnel costs which the Company incurred, and were recognized in selling, general and administrative expenses.

Notes to the consolidated financial statements

(in Canadian dollars)

December 31, 2020 and 2019

17. Discontinued operations

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

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 as discontinued operations.

The net loss from discontinued operations is detailed as follows:
For the years ended December 31

	2020	2019
	$	$
Net revenue	-	-
Cost of sales	-	-
Gross profit	-	-
Selling, general, and administrative expenses	-	(401,667)
Loss from operating activities	-	(401,667)
Other expenses	-	18,821
Net loss from discontinued operations	-	(382,846)
Loss per share from discontinued operations		
Basic and diluted	**(0.00)**	(0.02)

The cash flows from discontinued operations is detailed as follows:

For the years ended December 31	2020	2019
	$	$
Net cash flows from operating activities	-	(26,413)
Net cash flows from investing activities	-	-
Net decrease in cash	-	(26,413)

(in Canadian dollars)

18. Related party transactions

In the normal course of its operations, the Company may occasionally enter into transactions with related parties. All such transactions, if any, are reviewed and approved by the Board and are measured at their 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:

Compensation of key management personnel

In 2020, the Company's key management personnel was comprised of the Office of the President (which included the Company's Executive Chair and the Interim Chief Executive Officer), the Chief Financial Officer, the Chief Operations Officer (appointed on June 1, 2020), and the Company's directors, as they have the authority and responsibility for planning, directing and controlling the activities of the Company – either directly or indirectly. In 2019, in addition to the above, the Company's key management personnel also included the former Chief Executive Officer (until September 25, 2019), the former Chief Development Officer (a co-founder of the Company) and the former Chief Operating Officer (also a co-founder). The compensation earned by key management personnel in aggregate for these respective periods was as follows:

	December 31, 2020	**December 31, 2019**
	$	$
Wages, salaries, bonuses, consulting fees, and director's fees	**325,085**	1,710,133
Stock-based compensation	**980,129**	493,914
Total	**1,305,214**	2,204,047

19. Earnings (loss) per share

Basic earnings (loss) per share ("**EPS**") amounts are calculated by dividing the profit (loss) for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year reduced by the forfeitable founder's shares. Diluted EPS amounts are calculated by dividing the profit (loss) attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year reduced by the forfeitable founder's shares 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 years ended December 31, 2020 and 2019, as a result of the net loss during those years, the warrants and stock-based awards are anti-dilutive.

20. Segment information

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

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

a) Revenue by geographic region from continuing operations

	December 31, 2020 $	December 31, 2019 $
Canada	**2,713,023**	4,045,168
United States	**11,064,396**	36,024,120
	13,777,419	40,069,288

b) Property and equipment and intangible assets by geographic region

	December 31, 2020 $	December 31, 2019 $
Canada	**1,006,916**	1,490,025
United States	**-**	1,159,963
	1,006,916	2,649,988

21. Financial risk management

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

a) Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Approximately 80% of the Company's sales in 2020 were in U.S. dollars. In addition, inventory-related purchases are mainly denominated in Japanese yen, and accordingly, the Company is exposed to currency risk. The Company's currency risk is largely limited to currency fluctuations between U.S. dollars and Japanese yen, and to a lesser extent in Euros. The Company is exposed to currency risk through its cash, accounts receivable and accounts payable and accrued liabilities denominated in foreign currencies.

(in Canadian dollars)

The Company's foreign exchange exposure is as follows:

	December 31, 2020		
	US	**Euros**	**Japanese yen**
	$	€	¥
Cash	20,509	4,026	2,796,493
Accounts receivable	1,049,085	–	–
Accounts payable and accrued liabilities	(584,117)	(93,672)	(115,946,263)
	485,477	**(89,646)**	**(113,149,770)**
CA $ equivalent	**618,113**	**(139,917)**	**(1,393,179)**

	December 31, 2019		
	US	**Euros**	**Japanese yen**
	$	€	¥
Cash	1,714,605	4,026	92,860,081
Accounts receivable	2,650,173	93,736	–
Accounts payable and accrued liabilities	(1,273,251)	(19,171)	(213,462,268)
	3,091,527	**78,591**	**(120,602,187)**
CA $ equivalent	**4,015,276**	**114,609**	**(1,442,402)**

Assuming that all other variables remain constant, a revaluation of these monetary assets and liabilities due to a 5% rise or fall in the Canadian dollar against the U.S. dollar would have resulted in an increase or decrease to net loss in the amount of approximately $30,880. Assuming that all other variables remain constant, a revaluation of these monetary assets and liabilities due to a 5% rise or fall in the Canadian dollar against the Japanese yen would have resulted in an increase or decrease to net loss in the amount of approximately $69,659.

b) Market risk – interest rate risk

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

Based on the currently outstanding line of credit and total long-term debt bearing interest at variable rates as at December 31, 2020, if interest rates were to change by 100 basis points, assuming that all other variables had remained the same, finance costs would change by approximately $55,581 over a 12-month horizon.

(in Canadian dollars)

c) Liquidity risk

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

The Company expects that its trade and other payables will be discharged within 120 days.

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	3,367,959	–	3,367,959
Line of credit	-	2,796,217	2,796,217
Long-term debt	175,000	2,825,000	3,000,000
Other Liabilities (Lease liabilities)	168,900	551,864	720,764
	3,711,859	**6,173,081**	**9,884,940**

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 (see Note 1 – Corporate information, Covid-19 business update and liquidity risk and Note 4(b) – Going Concern).

d) Credit risk

The Company is exposed to credit risk resulting from the possibility that counterparties may default on their financial obligations to it. The Company's maximum exposure to credit risk at the reporting date is equal to the carrying value of accounts receivable. Accounts receivable primarily consist of receivables from retail partners and receivables from other companies for sales of wholesale products.

As at December 31, 2020, the allowance for doubtful accounts amounted to $669,897 (2019 - nil) represents the amount of trade receivables related to the Company's three bankrupt partners in the United States.

As set forth below, excluding the trade receivables from bankrupt partners, two trade partners accounted for respectively 70% and 8% of outstanding receivables, or an aggregate of 78% of total net trade accounts receivable. As at December 31, 2019, three trade partners accounted for respectively 37%, 17%, and 11% of outstanding receivables, or an aggregate of 65% of total trade accounts receivable.

(in Canadian dollars)

Trade accounts receivable at year-end are as follows:

	December 31, 2020	December 31, 2019
	$	$
Current	**568,668**	2,543,423
31 – 60 days	**920,318**	1,144,134
61 – 90 days	**47,386**	9,383
91 – 120 days	**680,289**	107,521
	2,216,662	3,804,461
Allowance for doubtful accounts	**(669,897)**	-
	1,546,765	3,804,461

As at December 31, 2020, current and 31-60-day-old receivables together represented 67% of total gross trade accounts receivable (2019 – 97%) and 96% of total net trade accounts receivable (2019 – 97%). This balance includes the amounts owed by the Company's most significant retail partners and relates to customers that have a good payment history with the Company.

22. Management of capital

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

	December 31, 2020	December 31, 2019
	$	$
Credit facility and line of credit	**2,796,217**	8,040,897
Current portion of long-term debt	**175,000**	3,434
Long-term debt	**2,761,912**	-
Cash	**(7,289,957)**	(3,498,824)
Net Debt/ (Cash)	**(1,556,828)**	4,545,507
Shareholders' equity	**3,102,881**	2,691,996
Total cash and capital under management	**1,546,053**	7,237,503

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

(in Canadian dollars)

The Company's primary uses of capital are to finance increases in non-cash working capital along with funding the accelerated growth of its e-commerce initiatives which include expansion of the e-commerce team and digital marketing spend.

The Company currently funds these requirements using its cash balance, the line of credit *(see Note 11)*, long-term debt *(see Note 10)* and through the issuance of Class B common shares *(see Note 13)*. The Board does not establish quantitative return on capital criteria for management.

There is no change with respect to the overall capital risk management strategy as at December 31, 2020 compared to 2019.

23. Finance costs

	December 31, 2020	**December 31, 2019**
	$	$
Credit facility and line of credit	**532,052**	424,355
Lease interest expense	**49,839**	58,473
Long-term debt	**9,309**	2,337
Amortization of financing fees and transaction costs	**15,658**	–
	606,858	485,164