LXR AND CO

LXRandCo, Inc.

Consolidated Financial Statements

As of and for the years ended December 31, 2018 and 2017

Independent auditors’ report

To the Shareholders of **LXRandCo, Inc.**

Opinion

We have audited the consolidated financial statements of LXRandCo, Inc. and its subsidiaries (the “Company”), which comprise the consolidated statements of financial position as at December 31, 2018 and 2017, and the consolidated statements of loss and comprehensive loss, consolidated statements of changes in shareholders’ equity (deficiency) and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2018 and 2017, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRSs).

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 are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information Included

Management is responsible for the other information. The other information comprises:

- 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, 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.

We obtained Management’s Discussion & Analysis prior to the date of this auditors’ report. 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 IFRSs, 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.

Auditors' 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 Company 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. The engagement partner on the audit resulting in this independent auditor's report is Georgia Tournas.

Ernst & Young LLP [1]

Montreal, Canada

April 1, 2019

[1] CPA auditor, CA, public accountancy permit no .A123806

LXRandCo, Inc.

Consolidated statements of financial position

(in Canadian dollars)

As at

	December 31, 2018	December 31, 2017
	$	$
		(Restated – note 3)
Assets		
Current		
Cash	**2,315,160**	4,015,025
Accounts receivable *(notes 5 and 11)*	**2,040,598**	5,296,667
Sales tax receivable	**709,842**	448,439
Inventory *(notes 3, 6 and 11)*	**10,495,985**	14,708,588
Right of return asset *(note 3)*	**80,060**	42,162
Prepaid expenses and deposits	**165,523**	367,079
Total current assets	**15,807,168**	24,877,960
Property and equipment, net *(note 7)*	**3,133,022**	3,044,726
Intangible assets, net *(note 8)*	**462,700**	661,808
Other assets	**112,682**	112,682
Goodwill *(note 10)*	**—**	3,683,987
	19,515,572	32,381,163
Liabilities and shareholders' equity (deficiency)		
Current		
Credit facility and line of credit *(note 11)*	**—**	8,189,476
Refund liabilities *(note 3)*	**175,327**	84,323
Accounts payable and accrued liabilities	**5,629,213**	6,241,675
Income tax payable	**686,197**	497,811
Deferred revenue	**66,996**	149,284
Current portion of long-term debt *(note 12)*	**59,895**	188,810
Total current liabilities	**6,617,628**	15,351,379
Credit facility and line of credit *(note 11)*	**5,789,656**	—
Long-term debt *(note 12)*	**13,034**	22,929
Other liabilities *(note 14)*	**108,916**	159,097
Deferred income taxes *(note 15)*	**—**	216,851
Total liabilities	**12,529,234**	15,750,256
Shareholders’ equity (deficiency)		
Share capital *(note 14)*	**90,202,459**	77,200,920
Warrants *(note 14)*	**12,940,438**	12,940,438
Contributed surplus	**1,536,635**	1,236,291
Accumulated other comprehensive loss	**(1,266,958)**	(513,405)
Deficit	**(96,426,236)**	(74,233,337)
Total shareholders' equity (deficiency)	**6,986,338**	16,630,907
	19,515,572	32,381,163

Commitments and contingencies *(note 24)*
Subsequent event *(note 26)*

See accompanying notes

On behalf of the Board:

Director Director

LXRandCo, Inc.

Consolidated statements of loss and comprehensive loss

(in Canadian dollars)

Years ended December 31

	2018	2017
	$	$
		(Restated – note 17)
Net revenue *(note 20)*	**39,018,893**	32,442,718
Cost of sales	**29,245,980**	24,004,324
Gross profit	**9,772,913**	8,438,394
Selling, general and administrative expenses *(note 16)*	**24,453,744**	13,845,067
Amortization and depreciation expenses *(notes 7 and 8)*	**1,323,932**	443,472
Impairment of goodwill *(note 10)*	**3,683,987**	—
Loss from operating activities	**(19,688,750)**	(5,850,145)
Finance costs *(note 23)*	**1,028,479**	1,010,496
Debt extinguishment costs	**—**	612,939
Foreign exchange gain	**(1,041,004)**	(180,847)
Non-recurring gain on acquisition of an associate	**—**	(1,465,090)
Excess of fair value over net assets acquired *(note 1)*	**—**	46,194,600
Non-recurring acquisition costs *(note 1)*	**—**	819,141
Gain on expiration of warrants *(note 13)*	**—**	(2,401,402)
Change in fair value of convertible redeemable preferred shares *(note 13)*	**—**	226,101
Convertible redeemable preferred shares dividends *(note 13)*	**—**	48,112
Change in fair value of warrants	**—**	257,532
Loss before income taxes	**(19,676,225)**	(50,971,727)
Income tax expense (recovery) *(note 15)*		
Current	**(47,511)**	106,240
Deferred	**(619)**	39,528
	(48,130)	145,768
Net loss from continuing operations	**(19,628,095)**	(51,117,495)
Net loss from discontinued operations *(note 17)*	**(2,564,804)**	(1,272,021)
Net loss for the year	**(22,192,899)**	(52,389,516)
Other comprehensive loss		
Cumulative translation adjustment	**(753,553)**	(340,581)
Comprehensive loss	**(22,946,452)**	(52,730,097)
Loss per share *(notes 17 and 19)*		
Total basic and fully diluted for the year	**(1.59)**	(6.16)
From continuing operations - basic and fully diluted	**(1.40)**	(6.01)
Weighted average number of shares outstanding – basic and fully diluted	**13,995,888**	8,501,412

See accompanying notes

LXRandCo, Inc.

Consolidated statements of changes in shareholders' equity (deficiency)

(in Canadian dollars)

Years ended December 31

	Share capital	Warrants	Contributed surplus	Cumulative translation adjustment	Deficit	Total shareholders' equity (deficiency)
	$	$	$	$	$	$
Balance as at December 31, 2016	100	—	—	(172,824)	(21,843,821)	(22,016,545)
Net loss for the year	—	—	—	—	(52,389,516)	(52,389,516)
Cumulative translation adjustment	—	—	—	(340,581)	—	(340,581)
Stock-based compensation expense *(note 14)*	—	—	1,236,291	—	—	1,236,291
Conversion of convertible redeemable preferred shares *(note 13)*	24,890,501	—	—	—	—	24,890,501
Class B common shares issued in Qualifying acquisition (notes 1 and 14)	52,310,319	12,940,438	—	—	—	65,250,757
Balance as at December 31, 2017	77,200,920	12,940,438	1,236,291	(513,405)	(74,233,337)	16,630,907
Net loss for the year	**—**	**—**	**—**	**—**	**(22,192,899)**	**(22,192,899)**
Cumulative translation adjustment	**—**	**—**	**—**	**(753,553)**	**—**	**(753,553)**
Stock-based compensation expense *(note 14)*	**—**	**—**	**348,989**	**—**	**—**	**348,989**
Class B common shares issued *(note 14)*	**14,324,625**	**—**	**—**	**—**	**—**	**14,324,625**
Equity issuance costs *(note 14)*	**(1,373,458)**	**—**	**—**	**—**	**—**	**(1,373,458)**
Exercice of stock-options *(note 14)*	**50,372**	**—**	**(48,645)**	**—**	**—**	**1,727**
Balance as at December 31, 2018	**90,202,459**	**12,940,438**	**1,536,635**	**(1,266,958)**	**(96,426,236)**	**6,986,338**

See accompanying notes

LXRandCo, Inc.

Consolidated statements of cash flows

(in Canadian dollars)

Years ended December 31	2018	2017
	$	$
		(Restated – note 17)
Operating activities		
Net loss from continuing operations for the year	**(19,628,095)**	(51,117,495)
Non-cash items:		
Depreciation of property and equipment	**836,975**	246,956
Amortization of intangible assets	**487,970**	196,516
Amortization of deferred financing costs	**412,945**	671,597
Impairment of goodwill	**3,683,987**	—
Stock-based compensation expense	**426,308**	1,395,388
Write-off and impairment of property and equipment	**545,590**	—
Unrealized foreign exchange (gain) loss on non-monetary assets	**(1,013)**	165,237
Non-recurring gain on acquisition of an associate	**—**	(1,465,090)
Gain on expiration of warrants	**—**	(2,401,402)
Change in fair value of convertible redeemable	**—**	226,101
preferred shares	**—**	
Convertible redeemable preferred shares dividends	**—**	48,112
Change in fair value of warrants	**—**	257,532
Interest accretion expense on subordinated debt	**—**	18,279
Excess of fair value over net assets acquired	**—**	46,194,600
Total tax recovery (expense)	**(48,130)**	39,528
	(13,283,463)	(5,524,141)
Net change in non-cash working capital balances related to operations	**5,936,845**	(9,820,561)
Cash flows used in operating activities	**(7,346,618)**	(15,344,702)
Investing activities		
Acquisitions of property and equipment	**(2,537,099)**	(1,050,718)
Acquisitions of intangible assets	**(288,666)**	(515,070)
Cash acquired from a step business combination	**—**	803,661
Cash flows used in investing activities	**(2,825,765)**	(762,127)
Financing activities		
Net increase (decrease) in credit facility	**—**	(3,873,743)
Net increase in line of credit	**(2,812,835)**	8,602,491
Cash acquired from acquisition	**—**	19,551,550
Repayment of long-term debt	**(138,810)**	(2,817,014)
Payment of financing costs	**(1,373,458)**	(610,231)
Proceeds from issuance of class B common shares	**14,324,625**	—
Redemption of preferred shares	**—**	(300,000)
Proceeds from issuance of convertible redeemable preferred shares	**—**	1,000,000
Exercise of stock-options	**1,727**	—
Cash flows provided by financing activities	**10,001,249**	21,553,053
Cash flows from discountinued operations *(note 17)*	**(1,675,172)**	(2,314,847)
Effect of exchange rate changes on cash on operating activities	**146,441**	(55,317)
Net (decrease) increase in cash during the year	**(1,699,865)**	3,076,059
Cash, beginning of year	**4,015,025**	938,966
Cash, end of year	**2,315,160**	4,015,025
Supplementary information (as reported in operating activities)		
Interest paid	**403,798**	129,889

See accompanying notes

Notes to the consolidated financial statements

(in Canadian dollars)

December 31, 2018 and 2017

1. Corporate information

LXRandCo, Inc. ("LXRandCo" or the "Company") is an international omni-channel retailer of branded vintage luxury handbags and accessories. LXRandCo sources and authenticates high-quality pre-owned products and sells them through: a retail network of stores located in major department stores in Canada, the United States and Europe (stores closed during the year – refer to note 17); wholesale operations primarily in the United States; and e-Commerce operations including its own website and through the websites of several of its retail partners. LXRandCo is incorporated and domiciled in Canada. The Company's legal registered address is at 130 Adelaide Street West, Toronto, Ontario, M5H 3P5 and its operating head office is located at 7399 Blvd. St-Laurent, Montréal, Québec, Canada, H2R 2W5. The Company also maintains an office in Tokyo, Japan.

As at December 31, 2018, LXRandCo's retail network consisted of 86 stores located as follows: 77 in the United States, and 9 in Canada.

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

On April 17, 2017, Gibraltar Growth Corporation ("Gibraltar Growth") filed a non-offering long form preliminary prospectus in respect of the acquisition of LXR Luxury Products International Inc. (the "LXR Acquisition"), and on May 12, 2017, Gibraltar Growth obtained its receipt from securities regulators for the public filing of its non-offering long form final prospectus in respect of the LXR Acquisition.

LXR Acquisition

On June 9, 2017, Gibraltar Growth, the predecessor of the Company, completed the acquisition of LXR Luxury Products International Inc. ("LXR International") and closed a private placement (the "Private Placement") of Class B shares ("Class B Share") for gross proceeds of $25 million. Gibraltar Growth, a special purpose acquisition corporation ("SPAC") whose Class A restricted voting shares (each, a "Class A Restricted Voting Share") and warrants (each, a "Warrant") were listed on the Toronto Stock Exchange (the "TSX"), was incorporated under the *Business Corporations Act* (Ontario) for the purpose of effecting an acquisition of one or more businesses or assets, by way of merger, amalgamation, share exchange, asset acquisition, share purchase, reorganization, or other similar business combination involving Gibraltar Growth, referred to as its "qualifying acquisition". The LXR Acquisition constituted Gibraltar Growth's qualifying acquisition (the "Qualifying Acquisition"). In connection with the closing of the Qualifying Acquisition, Gibraltar Growth was renamed to LXRandCo, Inc.

Notes to the consolidated financial statements

(in Canadian dollars)

December 31, 2018 and 2017

While Gibraltar Growth was the legal acquirer of LXR International, LXR International was identified as the acquirer for accounting purposes. The LXR Acquisition is outside the scope of IFRS 3, *"Business Combinations"* ("IFRS 3"), and it is accounted for as an equity-settled, share-based payment transaction in accordance with IFRS 2, *"Share-based Payments"* ("IFRS 2"). LXRandCo is considered to be a continuation of LXR International, with the net identifiable assets of Gibraltar Growth deemed to have been acquired by LXR International in exchange for shares of LXR International. Under IFRS 2, the transaction is measured at the fair value of the consideration deemed to have been issued by LXR International in order for the ownership interest in the combined entity to be the same as if the transaction had taken the legal form of LXR International acquiring 100% of Gibraltar Growth. Any difference in the fair value of the consideration deemed to have been issued by LXR International and the fair value of Gibraltar Growth's identifiable net assets represents a service received by LXR International, recorded through profit and loss. LXR International's historical financial statements as of and for the periods ended prior to the completion of the Qualifying Acquisition are presented as the historical financial statements of LXRandCo prior to the date of the completion of the Qualifying Acquisition. All share capital amounts have been restated using the exchange ratio established in the Qualifying acquisition.

Details of the LXR Acquisition are summarized as follows:

	$
Assets acquired	
Cash	19,551,550
Accounts receivable and other receivable	460,486
	20,012,036
Liabilities assumed	
Accounts payable and income taxes payable	955,879
Net assets acquired	19,056,157
Total consideration deemed to have been issued by LXR International	65,250,757
Excess of LXR fair value over net assets acquired	**46,194,600**

During the year ended on December 31, 2017, the Company incurred legal and other costs of $819,141 in connection with the LXR Acquisition that were recorded in net loss.

2. Summary of significant accounting policies

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

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, 2018 and 2017, 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 April 1, 2019.

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%
LXR&Co Germany GmbH	100%
LXR&Co UK Limited	100%
LXRandCo Netherlands B.V.	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 OCI 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 parent 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 income (OCI).

On disposal of foreign operations, the component of OCI 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 OCI 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

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. Goodwill is tested for impairment annually or at an earlier date if indicators of impairment are present. 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 taken into account. 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

Leases are classified as either operating or finance, based on the substance of the transaction at inception of the lease. Classification is re-assessed if the terms of the lease are changed. Leases in which a significant portion of the risks and rewards of ownership are not assumed by the Company are classified as operating leases. Payments under operating leases are recognized in net loss on a straight-line basis over the term of the lease.

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

i. Common shares

Common shares 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.

ii. Preferred shares

Preferred shares are classified as a financial liability if they are redeemable on a specific date or at the option of the shareholders. Dividends thereon are recognized as interest expense in net loss as accrued. The Company has no outstanding preferred shares at December 31, 2018.

iii. Convertible redeemable preferred shares

Convertible redeemable preferred shares previously issued by the Company also comprised convertible preferred shares that could be converted to common shares at the option of the holders.

The component parts of a compound financial instrument such as the convertible redeemable preferred shares previously issued by the Company are usually classified separately as financial liabilities and equity in accordance with the rights and obligations of that security. Usually, the conversion option that will be settled by the exchange of a fixed amount of cash for a fixed number of the Company's own equity instruments is classified as an equity instrument. Since the instrument did not previously meet the fixed-for-fixed criteria for bifurcation, the conversion option was classified as a separate other financial liability.

The Company previously designated the entire compound instrument as a financial liability at fair value through profit or loss.

Transaction costs that related to the issuance of the convertible redeemable preferred shares such as legal fees, that were directly attributable to the incurrence of financial liabilities were recorded as a reduction against the preferred share proceeds.

On June 9, 2017, in connection with the closing of the LXR Acquisition, the convertible redeemable preferred shares were converted into Class B common shares *(note 13).*

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 sale of goods should be recognized at the point in time when control of the good is transferred to the customer, generally recorded at the point of sale for retail and upon receipt of the goods by the customer for e-Commerce sales.

The Company provides retail store customers with a minimal right to return within a short specified period for store credit only while the Company provides e-Commerce customers a minimal right to return within a specified period for store credit or cash refund. 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 and Hybrid Store sales

Revenue from wholesale operations and hybrid stores is recognized when the shipment is received. The Company does not generally grant right of returns to wholesale customers.

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 OCI.

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 (IFRS 9 – effective for periods as of January 1, 2018)

The accounting policies applied from January 1, 2018 onwards are in compliance with IFRS 9. The policies applied under the previous accounting standard (IAS 39) were applied in the accounting for the comparative period results.

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.

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.

Financial Instruments (IAS 39 – effective for periods prior to January 1, 2018)

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Financial instruments are recognized depending on their classification, with changes in subsequent measurements being recognized in income or loss or in OCI.

The Company has made the following classifications:

- Cash and convertible redeemable preferred shares, including warrants, are classified as "fair value through profit or loss", and measured at fair value. Changes in fair value are recorded in net loss.
- Accounts receivable are classified as "Loans and Receivables". After their initial fair value measurement, they are measured at amortized cost using the effective interest rate method.
- Accounts payable and accrued liabilities, credit facility and long-term debt are classified as "Other Financial Liabilities". After their initial fair value measurement, they are measured at amortized cost using the effective interest rate method.

Transaction costs related to financial instruments classified as financial liabilities at fair value through profit or loss are expensed as incurred. Transaction costs related to financial liabilities classified as Other Financial Liabilities are reflected in the carrying amount of the financial liability and are then amortized over the estimated useful life of the instrument using the effective interest rate method.

Government grants

Government grants are recognized where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognized as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

Where the grant relates to an asset, it is recognized as income in equal amounts over the expected useful life of the related asset.

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

a) Adoption of new accounting standards

IFRS 15 Revenue from Contracts with Customers ("IFRS 15")

In May 2014, the IASB issued IFRS 15, *Revenue from Contracts with Customers*, to specify how and when to recognize revenue as well as requiring the provision of more informative and relevant disclosures. The Company adopted IFRS 15 on January 1, 2018, using the full retrospective method of adoption. IFRS 15 supersedes IAS 18, *Revenue* and related Interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

IFRS 15 mainly affects the accounting of the rights of return. Prior to adoption of IFRS 15, the amount of revenue related to the expected returns was deferred and recognized in the consolidated statement of financial position against accounts receivable with a corresponding adjustment to revenue. The initial carrying amount of goods expected to be returned was included within inventory. Under IFRS 15, the consideration received from the customer is variable because the contract allows the customer to return the products. The Company uses the expected value method to estimate the goods that will be returned because this method best predicts the amount of variable consideration to which the Company will be entitled. The Company applies the requirements in IFRS 15 on constraining estimates of variable consideration to determine the amount of variable consideration that can be included in the transaction price. The Company presents a refund liability and an asset for the right to recover products from a customer separately in the consolidated statement of financial position. Upon adoption of IFRS 15, the Company reclassified the provision for the right of return from accounts receivable to refund liabilities and the related return asset from inventory to right of return assets.

The consolidated statement of financial position as at December 31, 2017 was restated resulting in recognition of right of return assets and refund liabilities as follows: an increase in accounts receivable and a decrease in inventory of $84,323, and $42,162, respectively.

IFRS 9 Financial Instruments ("IFRS 9")

IFRS 9 replaced the requirements of IAS 39, "Financial Instruments: Recognition and Measurement". This final version of IFRS 9 brings together the classification and measurements as well as impairment and hedge accounting phases of the project to replace IAS 39. In addition to the new requirements for classification and measurement of financial assets, the standard also introduces new impairment requirements that are based on a forward-looking expected credit loss model. The Company adopted IFRS 9 as of January 1, 2018.

As the Company has adopted IFRS 9 using the modified retrospective approach, with the cumulative effects of initial application recorded in the opening deficit on January 1, 2018, the prior period results have not been restated.

The adoption of IFRS 9 required a re-classification of measurement category for some financial instruments as follows:

	Original classification under IAS 39	New classification under IFRS 9
Financial assets		
Cash	FVTPL	Amortized cost
Accounts receivable	Loans and receivables	Amortized cost
Financial liabilities		
Credit facility and line of credit	Amortized cost	Amortized cost
Accounts payable and accrued liabilities	Amortized cost	Amortized cost
Long-term debt	Amortized cost	Amortized cost

Management reviewed the nature of financial instruments of the Company and assessed the impact of the adoption of IFRS 9. The adoption of IFRS 9 does not an impact on the consolidated financial statements.

IFRS 9 replaces the incurred loss model from IAS 39 by introducing a new "expected credit loss" model for calculating impairment of financial assets. IFRS 9 specifies different approaches for measuring and recognizing expected credit losses, by considering only defaults in the next 12 months and/or the full remaining life of financial asset. The expected credit loss model requires a credit loss to be reflected in profit and loss immediately after an asset is acquired and subsequent changes in expected credit losses at each reporting date reflecting the change in credit risk. Due to the terms offered to customers and the Company's policy on providing for expected credit losses, the Company concludes that there is no impact on its allowance for doubtful accounts.

b) Standards issued but not yet effective

The following new standards, amendments and interpretations have been issued but are not effective for the fiscal year ended December 31, 2018 and, accordingly, have not been applied in preparing these consolidated financial statements.

IFRS 16 Leases ("IFRS 16")

In January 2016, the International Accounting Standards Board ("IASB") issued IFRS 16, which replaces IAS 17, "Leases" and related interpretations. This standard provides a single accounting model for leases, requiring the recognition of assets and liabilities for all leases and abolishing the current distinction between finance and operating leases. Certain exemptions will apply for short-term leases and leases of low value assets.

The new standard is effective for annual periods beginning on or after January 1, 2019. IFRS 16 will be applied for the 2019 annual fiscal period using the modified retrospective approach. Under this approach, the cumulative effect of initially applying IFRS 16 is recognized as an adjustment to equity

at the date of initial application and the comparative figures for the year ended December 31, 2018 will not be restated to reflect the adoption of IFRS 16 but instead continue to reflect the lessee's accounting policies under IAS 17 *Leases.*

The Company is currently assessing the impact of adopting this standard on its consolidated financial statements and related note disclosures.

Annual Improvements 2015-2017

In December 2017, the IASB issued amendments to four standards, including IFRS 3 – Business Combinations, IFRS 11 Joint Arrangements, IAS 12 – Income Taxes and IAS 23 – Borrowing Costs. These amendments will be effective for annual periods beginning on or after January 1, 2019. The implementation of these amendments is not expected to have a significant impact on the Company.

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 sources of estimation uncertainty

Inventory valuation

The Company records a write-down to reflect management's best estimate of the net realizable value of inventory, which includes assumptions and estimates for future sell-through of units, selling prices as well as disposal costs, where appropriate, based on historical experience. Management continually reviews the carrying value of its inventory, to assess whether the write-down is adequate, based on current economic conditions and an assessment of sales trends. Refer to note 6 for further discussion.

Estimation of fair value of equity instruments

The fair value of the convertible redeemable preferred shares of LXR International and the fair value of the equity considerations issued in the reacquisition of an associate and in conjunction with the LXR Acquisition are based on numerous assumptions and estimates that may have a significant impact on the amount recognized as goodwill, non-recurring gain on acquisition of an associate, convertible redeemable preferred shares' financial liability and the change in fair value of convertible redeemable preferred shares and warrants, as well as the amount of stock-based compensation expense.

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 twelve months following the end of the reporting period by considering relevant available information about the future. These cash flow estimates are dependent on the Company's achievement of its new strategic plan, including its sales forecasts and monitoring of operational costs. 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.

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.

Notes to the consolidated financial statements

(in Canadian dollars)

December 31, 2018 and 2017

5. Accounts receivable

	December 31, 2018	December 31, 2017 (Restated – note 3)
	$	$
Trade receivables	**2,375,613**	5,233,290
Allowance for doubtful accounts	**(335,015)**	(21,868)
	2,040,598	5,211,422
Other trade receivable	–	85,245
	2,040,598	5,296,667

Trade receivables are non-interest bearing and are generally due on terms of up to 30 days. As at December 31, 2018, trade receivables of an initial value of $1,250,965 (2017 – $1,436,710) were past due but not impaired.

6. Inventory

During the year ended December 31, 2018, inventories sold amounting to $18,483,717 were recognized as cost of goods sold ($16,801,823 for the year ended December 31, 2017). In addition, the Company recorded an inventory write down of $644,220 ($1,121,151 as at December 31, 2017), and a provision for inventory obsolescence amounting to $521,945 ($120,137 as at December 31, 2017). The increase in the obsolescence provision is mainly the result of the valuation associated with items sold at promotional events as part of the Company's initiatives to liquidate slow-moving inventory.

Notes to the consolidated financial statements

(in Canadian dollars)

December 31, 2018 and 2017

7. Property and equipment

	Furniture and equipment $	Computer equipment $	Rolling stock $	Leasehold improvements $	Total $
Cost					
Balance December 31, 2016	910,873	113,937	54,653	256,830	1,336,293
Acquisitions	2,259,438	142,258	–	27,265	2,428,961
Write-off	(4,474)	–	–	–	(4,474)
Cumulative translation adjustment	(66,100)	(3,326)	–	(3,748)	(73,174)
Balance December 31, 2017	3,099,737	252,869	54,653	280,347	3,687,606
Acquisitions	**1,329,146**	**41,636**	**–**	**212,930**	**1,583,712**
Write-off	**(698,720)**	**(11,947)**	**–**	**(286,775)**	**(997,442)**
Cumulative translation adjustment	**161,796**	**6,578**	**–**	**7,842**	**176,216**
Balance December 31, 2018	**3,891,959**	**289,136**	**54,653**	**214,344**	**4,450,092**

	Furniture and equipment $	Computer equipment $	Rolling stock $	Leasehold improvements $	Total $
Accumulated depreciation					
Balance December 31, 2016	190,420	73,441	30,874	40,645	335,380
Depreciation	136,694	46,064	19,314	76,188	278,260
Cumulative translation adjustment	28,348	281	37	574	29,240
Balance December 31, 2017	355,462	119,786	50,225	117,407	642,880
Depreciation	**739,414**	**70,144**	**(1,936)**	**144,504**	**952,126**
Assets impaired	**80,675**	**–**	**–**	**–**	**80,675**
Write-off	**(144,793)**	**(4,743)**	**–**	**(258,789)**	**(408,325)**
Cumulative translation adjustment	**44,731**	**3,840**	**–**	**1,143**	**49,714**
Balance December 31, 2018	**1,075,488**	**189,027**	**48,289**	**4,265**	**1,317,070**

	Furniture and equipment $	Computer equipment $	Rolling stock $	Leasehold improvements $	Total $
Net carrying value					
Balance, December 31, 2017	2,744,275	133,083	4,428	162,940	3,044,726
Balance December 31, 2018	**2,816,470**	**100,109**	**6,364**	**210,079**	**3,133,022**

Property and equipment with a net book value of $589,117 was written-off during the year. This was primarily related to furniture and equipment and leasehold improvements that are no longer in use as a result of store closures. During the year, the Company closed 93 stores. Write-offs of $464,915 and $124,202 are presented in selling, general, and administrative expenses and discontinued operations respectively.

During the year ended December 31, 2018, the Company tested for impairment all items of property and equipment for which there were indications that their carrying amounts may not be recoverable and recognized an impairment loss of $80,675. The impairment loss was recognized in the consolidated statement of loss within selling, general and administrative expenses. The impairment related to the property and equipment is due to the reduction in profitability of one retail partnership.

8. Intangible assets

	Software $	Website $	Total $
Cost			
Balance, December 31, 2016	17,700	351,928	369,628
Reacquisition of an associate	103,422	8,064	111,486
Acquisitions	515,070	–	515,070
Cumulative translation adjustment	–	(25,428)	(25,428)
Balance, December 31, 2017	636,192	334,564	970,756
Acquisitions	**214,535**	**74,131**	**288,666**
Cumulative translation adjustment	**–**	**31,626**	**31,626**
Balance, December 31, 2018	**850,727**	**440,321**	**1,291,048**

	Software $	Website $	Total $
Accumulated amortization			
Balance, December 31, 2016	1,635	111,076	112,711
Amortization	93,954	102,562	196,516
Cumulative translation adjustment	–	(279)	(279)
Balance, December 31, 2017	95,589	213,359	308,948
Amortization	**474,933**	**13,037**	**487,970**
Cumulative translation adjustment	**–**	**31,430**	**31,430**
Balance, December 31, 2018	**570,522**	**257,826**	**828,348**

	Software $	Website $	Total $
Net carrying value			
Balance, December 31, 2017	540,603	121,205	661,808
Balance, December 31, 2018	**280,205**	**182,495**	**462,700**

9. Business combination

During the year ended December 31, 2017, as part of a strategic decision to better integrate the Company's omni-channel strategy and improve the reporting of its entire operations, the Company reacquired control of an associate, Groupe Global LXR Inc. ("Global"), by repurchasing the interest of Global that it did not own, through the issuance of 59,558 convertible redeemable preferred shares of the Company. The convertible redeemable preferred shares fair value was estimated at $44.50 on the transaction date, establishing the consideration's fair value at $2,650,331. Global is the subsidiary of the Company that is responsible for the Company's Canadian and U.S. e-Commerce operations through its website, www.lxrco.com.

The excess of the purchase price over tangible assets, identifiable intangible assets acquired and liabilities assumed was recorded as goodwill. The purchase price of the business combination entered into has been allocated to assets acquired and liabilities assumed based on their estimated fair values at the acquisition date, using management's best estimates of the fair values using the data available at the acquisition date.

The Company recognized a gain resulting from a business acquisition of $1,465,090 arising from the fair value of its existing ownership interest in Global.

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

	$
Assets acquired	
Cash	803,661
Accounts receivable and other receivable	30,228
Inventory	54,933
Prepaid expenses	2,907
Tangible and intangible assets	184,064
Goodwill	2,218,897
	3,294,690
Liabilities assumed	
Accounts payable and accrued liabilities	341,254
Loan payable to related parties	303,105
	644,359
Net assets acquired	2,650,331
Purchase price consideration	
Issuance of 59,558 convertible redeemable preferred shares	2,650,331

10. Goodwill

For the year ended December 31, 2018, operating results were lower than the forecasted results due to several factors, such as the underperformance of certain of the Company's US and Europe retail partners and higher store costs, which negatively impacted the gross margin. In addition, the Company's market capitalization has been below the carrying amount of its net assets for the last four consecutive quarters. These factors suggest that goodwill may have become impaired. Accordingly, management performed an impairment test on June 30, 2018 to determine if the carrying amount is higher than its recoverable amount.

Following the impairment test, the Company recognized a goodwill impairment charge of $3,683,987, which corresponds to the balance of goodwill as at June 30, 2018. The recoverable amount was determined based on value in use ("VIU"), using a discounted cash flow model. The Company performed its annual impairment test on goodwill based on VIU using after-tax discount rates ranging from 14 to 15 percent and a perpetual growth rate for all channels of 3 percent per annum.

The Company prepares cash flow forecasts based on the most recently approved budget and three-year updated strategic plan, without considering any potential improvements and enhancements. Cash flow forecasts reflect the risk associated, as well as the most recent economic indicators. Cash flow forecasts beyond three years are extrapolated based on estimated growth rates that do not exceed the average long-term growth rates for the relevant markets.

11. Credit facility and line of credit

On June 9, 2017, concurrent with the closing of the LXR Acquisition, the Company repaid a revolving term loan and a capital expenditure term loan that it had with Sterling National Bank. The Company incurred $142,480 of termination fees that were recorded as debt extinguishment costs. Unamortized deferred financing fees were expensed in 2017.

On June 14, 2017, and as amended on October 18, 2017, the Company entered into a credit agreement with a Canadian chartered bank (the "Line of Credit"). The Line of Credit consists of a revolving credit facility for an authorized amount of up to $25,000,000, subject to a maximum draw based on a borrowing base calculated as a percentage of eligible accounts receivable and eligible inventory as defined in the credit agreement.

The Line of Credit bears interest at (a) the bank's prime rate (3.95% as at December 31, 2018 and 3.2% as at December 31, 2017) or U.S. base rate if denominated in U.S. dollars (5.50% as at December 31, 2018 and 4.5% as at December 31, 2017) plus an applicable margin of 0.50%, or (b) the banker's acceptance rate (2.25% as at December 31, 2018 and 1.37% as at December 31, 2017), plus an applicable margin of 2.00% or (c) LIBOR (2.52% as at December 31, 2018 and 1.56% as at December 31, 2017) plus an applicable margin of 2.00%, at the Company's option. A commitment fee

of 0.25% of the unused portion of the Line of Credit is also due. The Line of Credit matures on June 14, 2020.

The Line of Credit can be used to enter into foreign exchange contracts not exceeding a maximum amount of $1,000,000, secured by forward exchange contracts entered into by the Company. The Line of Credit can also be used to issue letters of credit not exceeding a maximum amount of $2,000,000. No exchange contracts and letters of credit were used during the year ended December 31, 2018.

The Line of Credit requires the Company to meet certain financial covenants, which were all met as at December 31, 2018. The Line of Credit also requires the Company to meet certain non-financial covenants, which were met as at December 31,2018. The Line of Credit requires the Company to meet certain financial covenants, which were all met as at December 31, 2018. The Line of Credit also requires the Company to meet certain non-financial covenants, which were met as December 31, 2018.

As at December 31, 2017, one of these covenants indicated that if a going concern note is to be included in any audited financial statements of the Company, this would constitute a breach as of the date of the statement of financial position for which a going concern note is required. Given the going concern disclosure present in the December 31, 2017 consolidated financial statements, the line of credit was presented as a current liability on the consolidated statement of financial position at December 31, 2017.

The Company's line of credit is subject to a maximum draw based on a borrowing base calculated as a percentage of eligible accounts receivable and eligible inventory as defined in the credit agreement. As per the terms of the arrangement, in an event of default, the bank may, at any time, take possession of the collateral. As at December 31, 2018, the amount drawn from the Line of Credit amounted for $5,789,656 ($8,602,491 as at December 31, 2017) and the Company's eligible accounts receivable and inventory amounts accounted for $1,768,319 and $5,680,957 ($3,226,999 and $8,462,210 as at December 31, 2017) respectively, for a total collateral amount of $7,449,276 ($11,689,209 as at December 31, 2017).

12. Long-term debt

	December 31, 2018	December 31, 2017
	$	$
Term loans from Investissement Québec ("IQ")	**50,000**	180,000
Other term loans	**22,929**	31,739
Total long-term debt	**72,929**	211,739
Current portion	**59,895**	188,810
	13,034	22,929

On April 17, 2013, the Company, through its wholly owned subsidiary LXR Canada Inc., entered into a term loan with IQ of $600,000 bearing interest at the bank's prime rate (3.95% as at December 31,

2018 and 3.2% as at December 31, 2017) plus an applicable margin of 5.8%. The loan is repayable by sixty monthly principal payments of $10,000 starting on June 1, 2016. The loan matures on May 31, 2019.

The term loan requires that certain financial covenants be maintained by the Company, which were not all met as at December 31, 2018. Accordingly, the Company presented this term loan as a current liability on the consolidated statement of financial position.

13. Convertible redeemable preferred shares

Issued

An unlimited number of convertible redeemable preferred shares are authorized for issue.

	Number	Amount
	#	$
Convertible redeemable preferred shares of LXR International		
Balance, January 1, 2017	351,667	15,649,724
Exercise of warrants	130,039	5,798,208
Issuance of convertible redeemable preferred shares	59,558	2,650,331
	541,264	24,098,263
Dividends payable in convertible redeemable preferred shares		
Balance, January 1, 2017	11,641	518,025
Dividends declared for the year	1,079	48,112
	12,720	566,137
Warrants to purchase convertible redeemable preferred shares		
Balance, January 1, 2017	195,100	6,940,646
Exercise of warrants	(130,039)	(4,539,244)
Expiration of warrants	(65,061)	(2,401,402)
Total convertible redeemable preferred shares	553,984	24,664,400
Change in fair value		226,101
	553,984	24,890,501
Conversion into Class B common shares of LXR International	(553,984)	(24,890,501)
Balance, December 31, 2017	–	–
Balance, December 31, 2018	–	–

2017

On June 10, 2016, the Company issued 351,667 convertible redeemable preferred shares, representing 26% of the Company's share capital, to a Company of unrelated investors as part of the

first closing of an equity financing, for total consideration of $2,704,333. The financing was extended to January 31, 2017 to accommodate potential additional closings. The convertible redeemable preferred shares were convertible at the option of the holders into Class A common shares of LXR International at a rate of one Class A common share for one convertible redeemable preferred share and were mandatorily redeemable on June 17, 2019, at their initial share price of $7.69 plus any unpaid annual cumulative dividends of 6%.

The convertible redeemable preferred shares were designated as a financial liability at fair value through profit or loss. Accordingly, the Company recorded an increase in fair value of $226,101 for the year ended December 31, 2017 resulting from an increase in valuation. The fair value of the convertible redeemable preferred shares was determined by using the fair value from LXR Acquisition and was established at a value of $44.93 per preferred share.

The Company granted warrants for the purchase of convertible redeemable preferred shares on November 10, 2016. The warrants had an expiration date of January 31, 2017 and entitled the holders to purchase up to 195,100 convertible redeemable preferred shares of the Company at a share price of $7.69. On January 30, 2017, the Company issued 130,039 convertible redeemable preferred shares at $7.69 per share for proceeds of $1 million in connection with the exercise of these warrants. The Company's share price was unchanged as at January 31, 2017, and accordingly, no fair value adjustment was recorded in the period on the remaining unexercised warrants. Upon expiration of the remaining unexercised warrants on January 31, 2017, the Company recorded a gain from the reduction of the related liability of $2,401,402.

On January 7, 2017, the Company reacquired control of Global by repurchasing the interest of Global that it did not own for total consideration of $2,650,331 through the issuance of 59,558 convertible redeemable preferred shares.

On March 31, 2017, the Board approved a payment in kind of the unpaid cumulative dividends of 6% in the normal course and in accordance with the terms of the convertible redeemable preferred shares shareholders' agreement. Accordingly, the Company issued 1,079 convertible redeemable preferred shares on March 31, 2017, and, consistent with the fair value valuation methodology applied to that financial instrument, recorded an amount of $566,137 as dividend payable on such convertible redeemable preferred shares.

On June 9, 2017, concurrent with the closing of the LXR Acquisition, the convertible redeemable preferred shares, including the declared dividends payable, were converted into 553,984 common shares of LXR International, which were then exchanged in favour of 2,504,008 Class B common shares of LXRandCo.

14. Share capital

a) Issued

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

	Number #	Amount $
Balance, January 1, 2018	12,946,484	77,200,920
Share issuance, net of issuance cost	2,728,500	12,951,167
Exercise of stock options	1,028	50,372
Balance, December 31, 2018	**15,676,012**	**90,202,459**

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

b) Forfeitable founders' shares

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

c) Warrants

As at December 31, 2018, 10,861,250 warrants to purchase Class B common shares of the Company are outstanding. Each warrant became exercisable 30 days after the completion of the Qualifying Acquisition (note 1), to purchase one Class B common share at an exercise price of $11.50 per share. The warrants will expire on June 9, 2022 or may expire earlier if the expiry date is accelerated pursuant to the terms of the warrant agreement, including if the closing price of the Company's Class B common shares on the TSX equals or exceeds $24.00. The fair value of the warrants was established at $12,940,438 at the LXR Acquisition date.

d) Long-term Incentive Plan (LTIP)

The Company's LTIP is an option-based and share-based compensation plan for directors, executive officers, and key employees and consultants. The LTIP of the Company has been approved by the Board in 2017 and has been approved by both the TSX and the Company's shareholders on May 11, 2018.

i. Option-based compensation

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

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

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

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

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

	2018	2017
Expected volatility	32% yearly	32% yearly
Risk-free interest rate	2.19%	1.48%
Expected option life	6.25 years	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, 2018 amounted to approximately $0.44 per option ($38 for stock options granted during the year ended December 31, 2017).

Notes to the consolidated financial statements

(in Canadian dollars)

December 31, 2018 and 2017

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

	December 31, 2018		December 31, 2017	
	Number	Weighted average exercise price	Number	Weighted average exercise price
	#	$	#	$
Options beginning of year	281,798	1.68	–	–
Granted	76,000	4.92	285,744	1.68
Forfeited/Cancelled	(69,458)	1.68	(3,946)	1.68
Exercised	(1,028)	1.68	–	–
Outstanding, end of year	**287,312**	**2.49**	**281,798**	**1.68**
Options exercisable at end of year	**157,754**	**3.21**	**48,765**	**1.68**

The following table summarizes information about the outstanding stock options granted by the Company as at December 31, 2018:

		Options outstanding		Options exercisable
	Exercise price	Number of options	Weighted average remaining contractual life	Number of options
	$	#	year	#
	1.68	211,312	8.19	107,754
	1.87	26,000	9.35	–
	6.50	50,000	4.00	50,000
Total	**2.49**	**287,312**	**7.57**	**157,754**

The stock-based compensation expense related to stock options of $348,989 (2017 – $1,236,291), is recorded in the consolidated statement of loss and comprehensive loss in selling, general and administrative expenses.

As at December 31, 2018, the total remaining unrecognized compensation expense related to non-vested stock options amounted to $257,180, which will be recognized over the weighted average remaining requisite service period of 3 years.

ii. Deferred share unit plan

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

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

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, 2018, the Company granted to directors 406,787 DSUs (30,304 in 2017) for a total expense of $317,375 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, 2018, the Company re-evaluated the fair value of the DSUs to be $107,633 and incurred a gain of $368,838 for the change in fair value in the consolidated statement of loss and comprehensive loss in selling, general and administrative expenses.

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

iii. Performance share units

Performance share units ("PSUs") are awarded to eligible directors under the LTIP. Under this plan, each eligible director receives a payment in the form of the Company's Class B common shares purchased on the open market, cash, or a combination of the Company's Class B common shares purchased on the open market and cash. The number of PSUs granted is determined based on the 5-day variable weighted average share price of the Company's Class B common shares immediately following the determination by the Board or by a committee appointed by the Board that the vesting conditions have been met.

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

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

Measurement at the end of the reporting period
As at December 31, 2018, the Company re-evaluated the value of the PSU to be $1,283 based on the closing price of the Class B common shares of the Company on the TSX. As a result of the fair value re-evaluation, the Company incurred a gain of $597 for the change in fair value in the consolidated statement of loss and comprehensive loss in selling, general and administrative expenses.

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

15. Income taxes

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

	December 31, 2018	December 31, 2017
	$	$
Income tax at statutory rate of 26.7% (2017:26.8%)	**(5,925,504)**	(14,040,390)
Impact of foreign tax rate differences	**(579,220)**	(370,280)
Effect of change in future tax rate	**–**	(499,946)
Permanent differences	**984,527**	11,702,823
Accrual to return	**(9,376)**	141,886
Valuation allowance on deferred tax assets	**5,526,669**	3,111,059
Other	**(45,226)**	100,616
	(48,130)	145,768

Notes to the consolidated financial statements

(in Canadian dollars)

December 31, 2018 and 2017

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, 2018	December 31, 2017
	$	$
Deferred income tax assets		
Financing fees	**126,430**	81,130
Net-operating losses	**580,314**	139,790
Total deferred income tax assets	**706,744**	220,920
Deferred income tax liabilities		
Carrying values of property and equipment in excess of tax basis	**(693,099)**	(172,213)
Tax payable on investment tax credits	**–**	(5,808)
Non-deductible reserve and others	**(13,645)**	(259,750)
Total deferred income tax liabilities	**(706,744)**	(437,771)
Net deferred income tax liabilities	**–**	(216,851)

As at December 31, 2018, the Company's U.S. subsidiaries have federal accumulated losses amounting to $14,195,939 (US$10,406,054). As at December 31, 2018, the Company's U.S. subsidiaries have state accumulated losses amounting to $5,112,636 (US$3,747,717). Federal losses generated prior to 2018 tax year will expire between 2032 and 2037. Federal losses generated in 2018 will not expire, but are subject to an annual limitation when utilized. These tax losses have not been recorded in the consolidated financial statements.

As at December 31, 2018, the Company's Canadian subsidiaries have accumulated losses amounting to $14,198,054 that expire between 2033 and 2038. These tax losses have not been recorded in the consolidated financial statements. As at December 31, 2018, the Company's European subsidiaries have accumulated losses amounting to $5,307,616 (€ 3,432,864) that can be used against future taxable income for an unlimited period. These tax losses have not been recorded in the consolidated financial statements.

16. Selling, general and administrative expenses

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

	December 31, 2018	December 31, 2017
	$	$
Wages, salaries and employee benefits	**15,233,212**	8,714,336
Professional fees	**2,650,584**	815,614
Stock-based compensation	**426,308**	1,395,388
Bad debt expense	**925,245**	672
Store-related opening and closing costs	**725,084**	1,373,181
Reporting issuer costs	**277,402**	151,960
Write-off and impairment of property and equipment	**545,590**	–
Other	**3,670,319**	1,393,916
	24,453,744	13,845,067

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 has been reclassified and presented separately as discontinued operations in the consolidated statements of loss and comprehensive loss and the consolidated statements of cash flows. Comparative periods have also been reclassified.

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

	2018	2017
	$	$
Net revenue	**2,006,796**	4,626,419
Cost of sales	**1,838,480**	3,235,427
Gross profit	**168,316**	1,390,992
Selling, general, and administrative expenses	**2,674,428**	2,586,818
Loss from operating activities	**(2,506,112)**	(1,195,826)
Other expenses	**58,692**	76,195
Net loss from discontinued operations	**(2,564,804)**	(1,272,021)
Loss per share from discontinued operations		
Basic and diluted	**(0.18)**	(0.15)

Selling, general, and administrative expenses for the year ended December 31, 2018, include $1,060,654 related to the closure of its European stores and include write-offs of property and equipment of $124,202. There were no income tax effects related to discontinued operations for any of the periods ended December 31, 2018 and 2017.

The cash flows from discontinued operations is detailed as follows:

For the years ended December 31	2018	2017
	$	$
Net cash flows from operating activities	**(1,665,196)**	(1,912,794)
Net cash flows from investing activities	**(9,976)**	(402,053)
Net decrease in cash	**(1,675,172)**	(2,314,847)

18. Related party transactions

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

	December 31, 2018	December 31, 2017
	$	$
Transactions with a commonly controlled company		
Rental expense paid to a company controlled by two officers*	**253,425**	144,000
Transactions with a Board director and shareholder		
Legal fees	**240,046**	233,250
Transactions with an associate		
Business combination		
Reacquisition of Groupe Global LXR Inc.	**–**	2,650,331

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

The Company has $52,264 of receivables from the CDO and the COO.

Compensation of key management personnel

The Company's key management personnel comprises of the Chief Executive Officer ("CEO"), the Chief Financial Officers (including interim) ("CFO"), the CDO (founder), the COO (founder), and the Board members, as they have the authority and responsibility for planning, directing and controlling the activities of the entity – directly or indirectly. The compensation earned by key management in aggregate was as follows:

	December 31, 2018	**December 31, 2017**
	$	$
Wages, salaries, bonuses, consulting fees	**1,500,700**	417,767
Stock-based compensation	**135,661**	950,483
Total	**1,636,361**	1,368,250

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. Diluted EPS amounts are calculated by dividing the profit (loss) attributable to ordinary equity holders of the parent (after adjusting for dividends and accretion interest on the mandatorily redeemable preferred shares) by the weighted average number of ordinary shares outstanding during the year 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, 2018 and 2017, as a result of the net loss during those years, the warrants, stock-based awards and convertible redeemable preferred shares are anti-dilutive.

20. Segment information

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

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

a) Revenue by geographic region

	December 31, 2018 $	December 31, 2017 $
Canada	**4,387,838**	5,745,269
United States	**34,631,055**	26,697,449
	39,018,893	32,442,718

During the year ended December 31, 2018, the Company ceased the operations of its European based subsidiaries (note 17). As a result of the closure of its European stores, there is no longer amount of revenues disclosed for this geographic for the year ended December 31, 2018 and 2017.

b) Property and equipment and intangible assets by geographic region

	December 31, 2018 $	December 31, 2017 $
Canada	**1,360,026**	4,899,657
United States	**2,235,696**	2,030,597
Europe	**–**	572,949
	3,595,722	7,503,203

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 89% of the Company's sales are 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, euros and Japanese yen. The Company is exposed to currency risk through its cash, accounts receivable and accounts payable and accrued liabilities denominated in foreign currencies.

The Company's foreign exchange exposure is as follows:

	December 31, 2018			
	US	**Euro**	**Japanese yen**	**Pound sterling**
	$	€	¥	£
Cash	1,039,324	52,710	31,388,150	10,807
Accounts receivable	1,058,523	–	–	–
Accounts payable and accrued liabilities	(1,318,749)	(157,609)	(118,359,420)	(14,648)
	779,098	**(104,899)**	**(86,971,270)**	**(3,841)**

	December 31, 2017			
	US	**Euro**	**Japanese yen**	**Pound sterling**
	$	€	¥	£
Cash	1,005,220	193,059	5,739,450	32,185
Accounts receivable	2,661,833	425,627	50,437,522	131,686
Accounts payable and accrued liabilities	(1,604,594)	(38,099)	(232,356,513)	(19,368)
	2,062,459	**580,587**	**(176,179,541)**	**144,503**

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 comprehensive loss in the amount of approximately $53,142. 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 comprehensive loss in the amount of approximately $53,966.

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, 2018, if interest rates had changed by 100 basis points, assuming that all other variables had remained the same, it would have increased or decreased finance costs by approximately $58,397.

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 operating lease commitments.

The Company expects that its trade and other payables will be discharged within 90 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	5,629,213	–	5,629,213
Line of credit	–	5,789,656	5,789,656
Long-term debt	59,895	13,034	72,929
	5,689,108	**5,802,690**	**11,491,798**

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.

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, 2018, five trade partners accounted for respectively 26%, 22%, 12%, 11%, and 10%, for an aggregate of 81% of total trade accounts receivable. As at December 31, 2017, five trade partners accounted for respectively 10%, 10%, 13%, 14% and 15%, for an aggregate of 62% of total trade accounts receivable. Trade accounts receivable are aged as follows:

	December 31, 2018	December 31, 2017 (Restated – note 3)
	$	$
Current	**850,523**	3,881,111
31 – 60 days	**715,265**	1,297,791
61 – 90 days	**428,057**	132,021
91 – 120 days	**381,768**	7,612
	2,375,613	5,318,535
	(335,015)	(21,868)
	2,040,598	5,296,667

Current trade receivables and 31-60-day-old receivables together represent 66% of total gross trade accounts receivable (2017 – 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.

e) Fair values

Financial assets and financial liabilities are measured on an ongoing basis at fair value or amortized cost. The disclosures in the "Financial instruments" section of note 2 describe how the categories of financial instruments are measured and how income and expenses, including fair value gains and losses, are recognized.

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

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

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

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

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

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

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

The fair values of the Company's other financial instruments are considered to approximate their carrying values due to the short-term maturity. There were no significant transfers between Level 1, Level 2 and Level 3 of the fair value hierarchy during the years ended December 31, 2018 and 2017.

22. Management of capital

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

	December 31, 2018	December 31, 2017
	$	$
Credit facility and line of credit	**5,789,656**	8,189,476
Current portion of long-term debt	**59,895**	188,810
Long-term debt	**13,034**	22,929
Cash	**(2,315,160)**	(4,015,025)
Net Debt	**3,547,425**	4,386,190
Shareholders' equity	**6,986,338**	16,630,907
Total cash and capital under management	**10,533,763**	21,017,097

The Company's 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 an adequate return to shareholders.

The Company's primary uses of capital are to finance increases in non-cash working capital along with capital expenditures for its store expansion program.

The Company currently funds these requirements using its cash balance, the line of credit *(note 11)*, long-term debt *(note 12)* and through its issuances of Class B common shares *(note 14)*. The Board does not establish quantitative return on capital criteria for management, but rather promotes year-over-year sustainable profitable growth. The Company is not subject to any externally imposed capital requirements other than as disclosed in notes 11 and 12.

There is no change with respect to the overall capital risk management strategy as at December 31, 2018 compared to 2017.

23. Finance costs

	December 31, 2018	December 31, 2017
	$	$
Credit facility and line of credit	**611,979**	202,491
Subordinated debt	**–**	93,453
Accretion expense on subordinated debt bonus	**–**	18,279
Long-term debt	**3,555**	24,676
Amortization of financing fees and transaction costs	**412,945**	671,597
	1,028,479	1,010,496

24. Commitments and contingencies

a) Commitments

The Company has various operating leases for their warehouses and head office. The annual minimum payments under these operating leases are as follows:

	$
2019	284,687
2020	225,906
2021	225,906
2022	225,906
2023 and thereafter	508,289

The schedule above includes yearly commitments to a company controlled by the Company’s CDO and COO in the amounts of $225,906 for 2019 to 2024, and $56,477 for 2025.

b) Contingencies

On October 31, 2017, a formal claim was received by the Company totalling approximately $1.1 million related to a terminated financing arrangement for the services of a financial advisor in the search of private equity capital. Management continues to believe that the claim is without merit, intends to defend itself vigorously, and therefore no provision has been recorded in the consolidated financial statements.

25. Comparative figures

Certain comparative financial figures have been reclassified from those previously presented to conform to the presentation in the 2018 consolidated financial statements. Storage costs in the amount of $623,328 have been reclassified from cost of sales to selling, general and administrative expenses.

In addition, the following amounts related to the year ended December 31, 2017 have been reclassified:

- Revenue of $152,071 from Europe ($4,387,993 to $4,235,922) to United States ($26,545,378 to $26,697,449) (note 20).

26. Subsequent event

On March 4, 2019, the Company completed a non-brokered private placement to Gibraltar & Company, Inc., Gibraltar Brands, Inc. and Gibraltar Ventures Fund One Limited Partnership, which are insiders or affiliates of insiders of the Company, and Star Orange Enterprise Pte. Ltd. (an affiliate of the Rattha Group), of an aggregate of 12,500,000 Class B Shares in the capital of the Company at a price of $0.40 per Share for gross proceeds of $5,000,000.

Completion of the private placement concluded the mandate of the Company's special committee of independent directors to identify and evaluate a broad range of strategic and financing alternatives for the Company and which unanimously recommended the Private Placement.