LXRandCo, Inc.

MANAGEMENT'S DISCUSSION AND ANALYSIS
Third Quarter Ended September 30, 2020

November 11, 2020

The following management's discussion and analysis ("**MD&A**") dated November 11, 2020 is intended to assist readers in understanding the business environment and financial performance of LXRandCo, Inc. (together with its consolidated subsidiaries, referred to herein collectively as "**LXRandCo**" or the "**Company**"). This MD&A should be read in conjunction with the unaudited interim condensed consolidated financial statements of LXRandCo and notes thereto for the three-month and nine-month periods ended September 30, 2020.

Basis of Presentation

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

The unaudited interim condensed consolidated financial statements and notes thereto for the three-month and nine-month periods ended September 30, 2020, and this MD&A were approved by the Board of Directors on November 11, 2020.

Going Concern due to COVID-19

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

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

The accompanying unaudited interim condensed consolidated financial statements have been prepared on a going concern basis which assumes the continued realization of assets and satisfaction of liabilities and commitments in the normal course of business.
During the nine-month period ended September 30, 2020, the Company incurred a net loss of $5,501,887 (nine-month period ended September 30, 2019–net loss of $8,349,003) and a negative operating cash flow

of $814,058 (nine-month period ended September 30, 2019–negative operating cash flow of $6,131,134). In addition, as at September 30, 2020, the Company had a working capital surplus of $2,877,864 (December 31, 2019–working capital surplus of $1,332,673) and an accumulated deficit of $112,345,749 (December 31, 2019-$106,843,862).

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

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

The Company's activities involve material risk and uncertainty, and the future profitability of the Company is dependent upon a number of factors, including increasing sales in an environment where consumer sentiment has been adversely affected by COVID-19, reducing SG&A, the underlying health and viability of its retail partner, general economic conditions and on consumer sentiment in general, and in the near to medium-term, any possible sustained negative effects of COVID-19 on consumer confidence and buying patterns. While management has been successful in securing financing through share issuances and debt financings in the past (see Note 4 and Note 5), there can be no assurance it will be able to do so in the future or that these sources of funding or initiatives will be available for the Company or that they will be available on terms which are acceptable to the Company.

Non-IFRS Measures

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

Caution Regarding Forward-Looking Statements

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

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

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

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

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

Overview

LXRandCo is a socially responsible, digital-first omni-channel retailer of branded vintage luxury handbags and other personal accessories. It curates, sources and authenticates high-quality, pre-owned products from iconic brands such as Hermès, Louis Vuitton, Gucci, Prada and Chanel and sells them at attractive prices through its e-commerce website, www.lxrco.com, as well as the online platforms of its partners and online vintage-focused marketplaces across North America. The Company's omni-channel model is also supported by retail "shop-in-shop" experience centers and by wholesale activities.

LXRandCo has offices in Montréal, Canada, and Tokyo, Japan.

LXRandCo believes iconic handbags deserve new lives. Its mission is to connect aspirational consumers with a curated collection of sustainable affordable luxury handbags and accessories by making sought after luxury products accessible to a broader audience through a multitude of channels. Management believes that its curated offering of branded pre-owned vintage luxury products addresses a growing demand by aspirational buyers who seek luxury products and accessories that might otherwise be unavailable to them due to price and accessibility. LXRandCo believes that it offers consumers an integrated omni-channel buying environment and authenticated and condition-graded products that are attractively priced compared to new products.

History

LXRandCo was founded in 2010 as a reseller of pre-owned branded luxury products primarily through wholesale channels.

In 2013, the Company launched its e-commerce business and later that same year launched its first retail store in Beverly Hills, California. Thereafter, recognizing the opportunity to position itself uniquely in the vintage luxury landscape by establishing a broader retail presence, LXRandCo began expanding its store network and transitioning to a more flexible, capital efficient 'shop-in-shop' model under which it partnered with select department stores and off-price retailers.

In 2014 and 2015, the Company established partnerships with several department stores and by the end of 2015 had expanded to 15 store locations.

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

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

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

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

In March 2020, the Company was hit by the COVID-19 pandemic. In response to recommendations from various health and governmental authorities pertaining to the COVID-19 outbreak, the Company announced that in conjunction with the decisions made by its retail partners in North America, that it too would temporarily close its stores until further notice, which reduced the Company's retail and wholesale revenues to nil and placed it under significant financial duress.

As a result of the liquidity pressures stemming from the COVID-19-related store closures, on May 25, 2020, the Company entered into a non-revolving term loan with a Canadian chartered bank under the Government of Canada's Business Credit Availability Program ("**BCAP Loan**") administered by Business Development Bank of Canada. The BCAP Loan consists of a non-revolving credit facility for a principal amount of $3,000,000. Additionally, the Company also renewed the Line of Credit for an additional three-year term until May 25, 2023. Concurrent with the closing of the BCAP Loan and renewal of the Line of Credit, and at the request of the Lenders, the Company also undertook a private placement of Class B common shares, which closed on June 4, 2020 for gross proceeds of $806,250.

During the third quarter of 2020, the adverse effects of the COVID-19 pandemic caused three of the Company's long-standing U.S.-based retail channel partners—Lord & Taylor, Stein-Mart Stores and Century 21—to file for creditor protection (and subsequent liquidation) under Chapter 11 of the Bankruptcy Code in the United States, which decreased the Company's total retail store network by 81%, or 48 stores, all located in the United States (the "**U.S. Partner Bankruptcies**"). Also, during the year one of the Company's largest wholesale customers —Stage Stores—also filed for creditor protection and subsequently liquidated its activities. On September 30, 2020, LXRandCo's retail network consisted of 11 stores, all located in Canada and of which eight were in operation.

On September 3, 2020, the Company announced a shift in strategy to a "digital-first" omni-channel model, whereby its strategic priorities would include: accelerating the growth of the Company's digital web presence through its LXRCO.com site, leveraging the Company's business activities through third-party e-commerce platforms, vintage-focused marketplaces and affiliate relationships and assisting with the expansion of e-commerce opportunities of our retail channel partners, either directly or on a white-label basis.

Financial and Operating Highlights

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

Overview of Results for the Three-Month Period Ended September 30, 2020, Compared to the Three-Month Period Ended September 30, 2019

Select financial highlights include the following:

- Total net revenue decreased by 65.6% to $2.9 million from $8.3 million due to the adverse impact of COVID-19 and the resulting U.S. Partner Bankruptcies which permanently reduced the Company's store count by 81%.

- E-commerce net revenue as a proportion of total net revenue increased during the period to 31.0% versus 11.9% and, as discussed above, is now the Company's core strategic channel on a go-forward basis.

- E-commerce net revenue, which includes online revenue from its own e-commerce website ("**LXRCO.com**"), as well as the e-commerce platforms of certain retail and digital partners, was $0.9 million, a decrease of 10.1%. E-commerce average order value ("**AOV**") was $1,287 per transaction, an increase of 11.6%.

- LXRCO.com net revenue, which represented 68.7% of e-commerce net revenue, was $0.6 million, an increase of 26% and LXRCO.com AOV was $1,271 per transaction, an increase of 17.0%.

- Retail net revenue was $2.0 million versus $6.6 million, a decrease of 69.4%. There was no wholesale revenue recorded in the period.

- Gross profit decreased by 69.1% to $0.8 million from $2.6 million.

- Gross profit margin decreased to 28.2% compared to 31.4%.

- Selling, general and administrative expenses ("**SG&A**") decreased by 34.3% to $2.8 million from $4.3 million.

- The impact on SG&A included a total of $1.2 million of extraordinary charges from the U.S. Partner Bankruptcies—$0.3 million in bad debt expenses and a one-time non-cash expense of $0.9 million attributable to the write-down of store fixtures. Excluding these items, SG&A during the period decreased by 61.3%.

- Net loss for the period increased by 20.6% to $2.8 million from a net loss of $2.3 million.

- Adjusted EBITDA (a non-IFRS measure) decreased by 44.3% to a loss of $0.8 million versus an Adjusted EBITDA loss of $1.4 million.

- Despite the significant pressures from COVID-19 and the U.S. Partner Bankruptcies, cash flow used in operations improved by 102.2% to a near break-even level versus a deficit of

$2.8 million.

- The Company's available cash resources on September 30, 2020 was $1.2 million.

Overview of Results for the Nine-Month Period Ended September 30, 2020, Compared to the Nine-Month Period Ended September 30, 2019

Select financial highlights include the following:

- Total net revenue, which was adversely impacted by COVID-19 and the resulting U.S. Partner Bankruptcies, decreased by 59.5% to $10.4 million from $25.6 million.
- E-commerce net revenue as a proportion of total net revenue increased to 25.7% versus 9.9%.
- E-commerce net revenue was $2.7 million, an increase of 4.5% and e-commerce AOV was $1,236 per transaction, an increase of 15.5%.
- LXRCO.com net revenue, which represented 68.0% of e-commerce net revenue, was $1.8 million, an increase of 49.5%. LXRCO.com AOV was $1,210 per transaction, an increase of 22.5%.
- Retail net revenue was $6.9 million versus $20.7 million, a decrease of 66.5%. Wholesale net revenue was $0.8 million, a decrease of 67%.
- Gross profit decreased by 58.1% to $3.2 million from $7.6 million.
- Gross profit margin increased to 30.8% compared to 29.8%.
- Selling, general and administrative expenses decreased by 39.5% to $8.1 million from $13.4 million.
- The impact on SG&A included a total of $1.6 million of extraordinary charges from the U.S. Partner Bankruptcies—$0.7 million in bad debt expenses and one-time non-cash expenses of $0.9 million attributable primarily to the write-down of store fixtures. Excluding these items, SG&A during the period decreased by 51.2%.
- Net loss decreased by 34.1% to $5.5 million from a net loss of $8.3 million.
- Adjusted EBITDA (a non-IFRS measure) decreased by 45.9% to a loss of $2.6 million versus an Adjusted EBITDA loss of $4.8 million.
- Despite the significant pressures from COVID-19 and the U.S. Partner Bankruptcies, cash flow used in operations improved by 86.7% to a deficit of $0.8 million versus a deficit of $6.1 million.

Factors Affecting Results from Operations

Management believes that the success and future performance of LXRandCo depends on a number of factors that present significant opportunities. These factors are also subject to a number of important risks and challenges, some of which are discussed under the headings "**Risk Factors**" and "**Management's Discussion and Analysis of LXR – Risk Factors**" in LXRandCo's Annual Information Form, and as described from time to time in the reports and disclosure documents filed by the Company with the Canadian securities regulatory agencies and commissions from time to time.

LXRandCo Brand

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

Product Mix and Merchandising Strategy

LXRandCo believes that its ability to determine which products and brands to offer its addressable market is a key driver of its net revenue growth. LXRandCo gains an understanding of market demand for pre-owned vintage luxury products by analyzing general demographic data, data provided by retail partners on product sales and location-specific traffic and its own database capabilities. LXRandCo's merchandising is continuously curated to ensure that LXRandCo offers an attractive value proposition to its targeted demographic, with the objective of providing consumers with the right product, at the right price across all channels. LXRandCo's continued success will depend on, among other factors, its continued ability to properly assess demand in its target markets and to continue to implement a disciplined merchandise planning and sourcing strategy that allows it to maintain optimal inventory levels, product assortment and competitive pricing.

Sourcing and Authentication

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

In addition to authentication guarantees provided to it by suppliers, LXRandCo maintains its own internal authentication process whereby all products sourced from suppliers and customers are inspected by highly trained teams of product experts. Any loss of trust in the authenticity of LXRandCo's products could adversely affect LXRandCo's brand appeal and overall business and financial results. There is no guarantee that LXRandCo can continue to maintain uncompromising standards in product authentication in order to provide an authenticity guarantee on all product sales.

E-Commerce Growth

LXRandCo launched its e-commerce offering in 2013, and management believes there is an opportunity to meaningfully grow its e-commerce business over time, especially given the significant structural changes brought about by COVID-19. Where possible, LXRandCo plans to leverage business intelligence and consumer spending data to further enhance its understanding of customer preferences and buying behaviour. This includes optimizing its online operations to enhance personalization, which LXRandCo believes will drive higher conversion rates and increased customer loyalty for itself and its retail partners. Management also believes there is an opportunity to grow its e-commerce operations by developing a mutually positive online relationship with retail channel partners as well as leveraging third-party marketplaces for vintage offerings. There can be no guarantee, that LXRandCo can meaningfully grow its e-commerce business through its proprietary website, that of its retail partners or through third-party marketplaces.

Retail Network Expansion

LXRandCo may expand its retail network opportunistically and selectively across Canada and the United States. However, LXRandCo's ability to successfully expand will depend on numerous factors, including funding, individual new store profitability, securing profitable new retail partnerships, expanding existing partnerships in key targeted geographies, and the prospects of generating the anticipated financial performance for both LXRandCo and its retail partners. Currently, the Company operates eleven stores (of which eight are open) with one retail partner. The success of the Company's retail network strategy is contingent on the continued viability of this one partner, especially in a prolonged COVID-19 environment, and on its ability to attract new retail and wholesale partners in future.

Retail Network Productivity and Scalability

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

General Economic Conditions and Consumer Spending

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

Consumer Trends

Demand for vintage luxury handbags and accessories is subject to shifts in general consumer trends and preferences and consumer spending, and LXRandCo's revenue and operating results depend on its ability to respond to such changes in a timely manner. Management believes that LXRandCo's diversified brand and product mix provides LXRandCo with the flexibility to optimize its offering as needed to address changes in consumer demand and market trends. In addition, the iconic nature of the luxury brands offered by LXRandCo also provides a more stable source of demand over time that is less susceptible to be affected by short-term fashion trends.

Seasonality

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

First fiscal quarter……………………………………	21%
Second fiscal quarter	21%
Third fiscal quarter	21%
Fourth fiscal quarter	37%
Total	100%

While the above trends have been generally consistent historically, given the ongoing impact of COVID-19 and due to the permanent loss of the Company's US-based retail partners which has significantly impacted the Company's revenue base, the above trend will not be indicative of seasonality trends for the Company in 2020 and possibly 2021.

Weather

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

Competition

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

Foreign Exchange

LXRandCo reports its financial results in Canadian dollars. In 2020, the majority of LXRandCo's net revenue was derived in U.S. dollars while most of its cost of goods sold was sourced in Japanese yen. Consequently, any future fluctuations in the exchange rate of the Canadian dollar versus the U.S. dollar, and the Canadian dollar versus the Japanese yen could materially affect LXRandCo's revenue, gross profit margins and overall operating results. At present, LXRandCo is not relying on any hedging strategies to mitigate the risks associated with adverse currency fluctuations in either the Japanese yen or the U.S. dollar.

How Management Assesses the Performance of LXRandCo

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

Net Revenue

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

Gross Profit

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

Selling, General and Administrative Expenses

SG&A expenses consist of selling expenses that are generally variable with net revenue, and general and administrative operating expenses that are primarily fixed. Management expects the variable component of SG&A expenses to continue to increase as it grows future revenue through its retail store network, wholesale channels and its e-commerce business. LXRandCo's SG&A expenses may include different expenses compared to other retailers and may not be entirely comparable.

Net Loss

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

Adjusted Net Loss

Adjusted Net Loss is a non-IFRS measure that management believes is a useful measure of LXRandCo's performance, as it provides a more relevant picture of results by excluding the effects of expenses that are not reflective of underlying business performance, and other non-cash or non-recurring expenses. Management uses Adjusted Net Loss to facilitate a comparison of its performance on a consistent basis from period to period and to provide for a more complete understanding of factors and trends affecting LXRandCo's business. Adjusted Net Loss is reconciled to Net Loss, its nearest GAAP measure, on page 13 for expenses that management considers to be not representative of LXRandCo's ongoing operating performance, net of related tax effects.

EBITDA

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

Adjusted EBITDA

Adjusted EBITDA is a non-IFRS measure that management believes is a useful measure of operating performance in that it excludes the effects of financing and investing activities from operating results by removing the effects of amortization and depreciation expenses, finance costs, expenses that are not reflective of underlying business performance, and other non-cash or non-recurring expenses. Management uses Adjusted EBITDA to facilitate a comparison of its operating performance on a consistent basis from period to period and to provide for a more complete understanding of factors and trends affecting LXRandCo's business. Adjusted EBITDA is reconciled to Net Loss, its nearest GAAP measure, on page 13 for expenses that management considers to be not representative of LXRandCo's ongoing operating performance. Because Adjusted EBITDA excludes non-cash items, management believes that it is less susceptible to variances in actual performance resulting from depreciation, amortization and other non-cash charges.

Key Financial and Operating Information

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

LXRandCo, Inc.

Condensed consolidated statements of loss

(in Canadian dollars, unaudited)

	For the three-month period ended September 30,		For the nine-month period ended September 30,	
	2020	**2019**	**2020**	**2019**
Net revenue	**2,857,718**	8,314,615	**10,385,606**	25,629,115
Cost of sales	**2,052,166**	5,707,183	**7,182,821**	17,983,306
Gross profit	**805,552**	2,607,432	**3,202,785**	7,645,809
Operating expenses				
Selling, general and administrative expenses	**2,827,722**	4,306,937	**8,128,402**	13,435,146
Amortization and depreciation expenses	**178,109**	254,467	**532,799**	762,171
Results from operating activities	**(2,200,279)**	(1,953,972)	**(5,458,416)**	(6,551,508)
Other income and expenses				
Finance costs	**133,138**	125,764	**456,378**	352,044
Foreign exchange loss (gain)	**389,858**	(138,402)	**(475,982)**	1,008,248
Loss on disposition of subsidiaries	**—**	363,304	**—**	382,846
Loss before income taxes	**(2,723,275)**	(2,304,638)	**(5,438,812)**	(8,294,646)
Income tax expense				
Current	**63,075**	6,154	**63,075**	54,357
	63,075	6,154	**63,075**	54,357
Net loss from continuing operations	**(2,786,350)**	(2,310,792)	**(5,501,887)**	(8,349,003)
Net loss from discontinued operations	**—**	**—**	**—**	**-**
Net loss for the period	**(2,786,350)**	(2,310,792)	**(5,501,887)**	(8,349,003)

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

	For the three-month period ended September 30,		For the nine-month period ended September 30,	
	2020	**2019**	**2020**	**2019**
Reconciliation of net loss to Adjusted EBITDA				
Net loss	**(2,786,350)**	(2,310,792)	**(5,501,887)**	(8,349,003)
Add: Amortization and depreciation expenses	**178,109**	254,467	**532,779**	762,171
Add: Finance costs	**133,138**	125,764	**456,378**	352,044
Add: Income tax expense	**63,075**	6,154	**63,075**	54,357
EBITDA	**(2,412,028)**	(1,924,407)	**(4,449,635)**	(7,180,431)
Adjustments to EBITDA:				
Foreign exchange loss (gain)	**389,858**	(138,402)	**(475,982)**	1,008,248
Impact of U.S. Partner Bankruptcies:				
- Write off of property and equipment	**873,435**	295,121	**1,043,013**	427,898
- Extraordinary loss due to bad debt	**287,829**	-	**697,625**	-
Stock-based compensation expense	**78,741**	—	**576,651**	9,420
Loss on disposition of subsidiaries	**—**	363,304	**—**	382,846
Professional fees related to strategic review and private placement	**—**	—	**—**	474,853
Store closing costs	**(97)**	—	**11,968**	73,921
Adjusted EBITDA	**(782,262)**	(1,404,384)	**(2,596,360)**	(4,803,245)
Adjusted EBITDA as a percentage of net revenue	**(27.4%)**	(16.9%)	**(25.0%)**	(18.7%)
Reconciliation of Net Loss to Adjusted Net Loss				
Net loss	**(2,786,350)**	(2,310,792)	**(5,501,887)**	(8,349,003)
Adjustments to net income:				
Foreign exchange loss (gain)	**389,858**	(138,402)	**(475,982)**	1,008,248
Impact of U.S. Partner Bankruptcies:				
- Write off of property and equipment	**873,435**	295,121	**1,043,013**	427,898
- Extraordinary loss due to bad debt	**287,829**	-	**697,625**	-
Stock-based compensation expense	**78,741**	—	**576,651**	9,420
Loss on disposition of subsidiaries	**—**	363,304	**—**	382,846
Non-recurring professional fees	**—**	—	**—**	474,853
Store closing cost	**(97)**	—	**11,968**	73,921
Adjusted Net Loss	**(1,156,584)**	(1,790,769)	**(3,648,612)**	(5,971,817)
Adjusted Net Loss as a percentage of net revenue	**(40.5%)**	(21.5%)	**(35.1%)**	(23.3%)

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

Selected retail network data	For the three-month period ended September 30, 2020	2019	For the nine-month period ended September 30, 2020	2019
Number of stores, beginning of period	59	84	80	86
Store openings	0	4	0	5
Store closures	48	7	69	10
Number of stores, end of period	**11***	**81**	**11***	**81**

* *Out of eleven stores, only eight stores were open as at September 30, 2020 due to COVID-19.*

Results of Operations

Comparison of the Three-Month Periods Ended September 30, 2020 and 2019

Net Revenue

Owing largely to the adverse impact of COVID-19 and the resulting U.S. Partner Bankruptcies, the Company's total net revenue mix changed materially over the period. In the three-month period ended September 30, 2020, total net revenue decreased by 65.6% to $2.9 million from $8.3 million. During this period, approximately 31.0% of total net revenue was generated from e-commerce and 69.0% from retail and wholesale channels (combined), as compared to 11.9% and 88.1%, respectively, in the three-month period ended September 30, 2019. Also, during this period, approximately 80.5% and 19.5% of net revenue was generated in the U.S. and Canada, respectively, as compared to 87.9% and 12.1% in the three-month period ended September 30, 2019. This shift in revenue mix was largely due to the geographic impact of COVID-19 on store closures and the growth in e-commerce revenue, particularly through LXRCO.com, as compared to last year.

E-commerce

E-commerce net revenue as a proportion of total net revenue increased during the period to 31.0% versus 11.9% last period. E-commerce net revenue during the period was $0.9 million, a decrease of 10.1% compared to prior period. Included in e-commerce net revenue is online revenue from the retail partners affected by the U.S. Partner Bankruptcies, which given the impact of COVID-19 in 2020, performed at a much lower rate than that of last year thus affecting overall comparative performance. E-commerce AOV during the period was $1,287, an increase of 11.6% versus the comparable period last year.

LXRCO.com net revenue, which represented 68.7% of e-commerce net revenue, was $0.6 million in the three-month period ended September 30, 2020, an increase of 26.8% versus last year. This performance during the third quarter, was due in part to an increased shift in consumer buying patterns from traditional brick-and-mortar channels to online, and to the fact that the Company made several investments in both talent and marketing spend to position LXRCO.com for above-average growth on a go-forward basis. During the period, LXRCO.com's AOV was $1,271, an increase of 17.0% versus the comparable period last year.

Retail and Wholesale

At period end, LXRandCo's retail network consisted of eleven stores of which eight were open due to closures resulting from the COVID-19 pandemic, versus 81 open stores as of September 30, 2019. During the three-month period ended September 30, 2020, the Company closed 48 stores (versus seven for the three-month period ended September 30, 2019). These store closures were necessitated by the U.S. Partner Bankruptcies made in August 2020 and September 2020.

In the three-month period ended September 30, 2020, retail and wholesale net revenue decreased by 73.1% to $2.0 million as compared to $7.3 million in the three-month period ended September 30, 2019. The decrease in total net revenue primarily reflects the lingering adverse economic impact of COVID-19 on the Company's retail and wholesale revenue streams, as well as the material impact from store closures relating to the U.S. Partner Bankruptcies. There was no wholesale revenue recorded in the period as compared to net revenue of $0.7 million last year.

Discontinued Net Revenue from U.S. Partner Bankruptcies
For the three-month period ended September 30, 2020, approximately $1.7 million of the net revenue booked in the period was attributable to the 48 stores of partners affected by the U.S. Partner Bankruptcies (comparable period 2019—$5.8 million). As discussed above, as these partners have or are in process of liquidating their operations, these revenue channels are no longer available to the Company and represent a permanent loss in future revenue for the Company. The Company is planning to replace such revenue, over time, through a combination of increased e-commerce activity and the opportunistic addition of other retail and/or wholesale channel partners.

Gross Profit

In line with the 65.6% reduction in net revenue in the three-month period ended September 30, 2020, gross profit decreased by 69.1% to $0.8 million as compared to $2.6 million in the three-month period ended September 30, 2019.

For the three-month period ended September 30, 2020, gross profit margin decreased to 28.2% compared to 31.4% in the three-month period ended September 30, 2019. The compression in gross margin primarily reflects the impact of the U.S Partner Bankruptcies on net revenue and one-time increased operational costs brought on by the rapid closures of 48 stores during the period. The gross margin decline is also partially attributable to a small one-time liquidation sale, as part of the Company's inventory optimization strategy, which carried a disproportionate financial impact due to the period's relatively low reported net revenue.

SG&A Expenses

Throughout the COVID-19 pandemic, the Company has, where possible, acted proactively in reducing operating costs and right-sizing operations where required given the significant losses in net revenue. For the three-month period ended September 30, 2020, SG&A expenses decreased by 34.3% to $2.8 million, compared to $4.3 million in the three-month period ended September 30, 2019. This decrease was primarily due to a reduced retail store network, the partial furloughing of store employees and the furloughing and/or reduced work hour arrangements with most of its head office staff, all the result of the COVID-19 outbreak.

Despite these reductions, SG&A expense during the third quarter was adversely impacted by $1.2 million in extraordinary charges relating to the U.S. Partner Bankruptcies, which included $0.3 million attributable to bad debt expenses and expenses of $0.9 million due to the write-down of store fixtures among other dislocation costs. Excluding these non-cash items, SG&A during the period would have decreased by 61.3%, which given its non-cash nature is positively reflected in the Company's third quarter cash flow from operations.

As of September 30, 2020, and including certain retail partner employees under the direct supervision (but not direct employees) of the Company, LXRandCo's total employee headcount was 56, a decrease of 244 people from the 300 as of September 30, 2019. The number of employees directly employed by the Company was 56 as of September 30, 2020, as compared to 171 as of September 30, 2019. This decrease in headcount is mainly the result of a streamlined retail salesforce resulting from impact of store closures, the U.S Partner Bankruptcies and other terminations.

Net Loss

In the three-month period ended September 30, 2020, the Company's net loss increased by 20.6% to $2.8 million from a net loss of $2.3 million in the three-month period ended September 30, 2019.

Adjusted Net Loss

In the three-month period ended September 30, 2020, Adjusted Net Loss decreased by 35.4% to $1.2 million as compared to an Adjusted Net Loss of $1.8 million in the three-month period ended September 30, 2019. The financial table on page 13 sets forth the reconciliation of Net Loss to Adjusted Net Loss.

Adjusted EBITDA

Despite a 65.6% decline in net revenue, in the three-month period ended September 30, 2020, Adjusted EBITDA loss decreased by 44.3% to $0.8 million as compared to an Adjusted EBITDA loss of $1.4 million in the three-month period ended September 30, 2019. The financial table on page 13 sets forth the reconciliation of Net Loss to Adjusted EBITDA.

Comparison of the Nine-Month Periods Ended September 30, 2020 and 2019

Net Revenue

Owing largely to the adverse impact of COVID-19 and the resulting U.S. Partner Bankruptcies, the Company's total net revenue in the nine-month period ended September 30, 2020 decreased by 59.5% to $10.4 million from $25.6 million. During this period, approximately 25.7% of total net revenue was generated from e-commerce and 74.3% from retail and wholesale channels (combined), as compared to 9.9% and 90.1% in the nine-month period ended September 30, 2019. Also, during this period, approximately 83.6% and 16.4% of its net revenue was generated in the U.S. and Canada, respectively, as compared to 90.1% and 9.9%, respectively, in the nine-month period ended September 30, 2019. This shift in revenue mix was largely due to the geographic impact of COVID-19 on store closures and the growth in e-Commerce revenue, particularly LXRCO.com, as compared to last year.

E-commerce

E-commerce net revenue as a proportion of total net revenue increased during the period to 25.7% versus 9.9% last period. E-commerce net revenue during the period was $2.7 million, an increase of 4.5% versus prior period. Included in e-commerce net revenue is online revenue from those retail partners affected by the U.S. Partner Bankruptcies, which given COVID-19 performed at a much lower rate than that of last year. E-commerce AOV during the period was $1,236, an increase of 15.5% versus the comparable period last year.

LXRCO.com net revenue, which represented 68.0% of e-commerce net revenue, was $1.8 million in the nine-month period ended September 30, 2020, an increase of 49.4% versus last year. During the year, the Company made several investments in e-commerce platform upgrades, talent hires, and increased marketing spend to position LXRCO.com for above-average growth on a go-forward basis. During the nine-month period, LXRCO.com's AOV was $1,210, an increase of 22.5% versus the comparable period last year.

Retail and Wholesale
At period end, LXRandCo's retail network consisted of eleven stores of which eight were open due to the ongoing impact of the COVID-19 pandemic, versus 81 stores as of September 30, 2019. During the nine-month period ended September 30, 2020, the Company closed 69 stores (versus 10 during the nine-month period ended September 30, 2019). These store closures were necessitated by the Company's store optimization program, the adverse impact of COVID-19 and the resulting U.S. Partner Bankruptcies announced in August 2020 and September 2020.

In the nine-month period ended September 30, 2020, retail and wholesale net revenue decreased by 66.5% to $7.7 million as compared to $23.1 million in the nine-month period ended September 30, 2019. The decrease in total net primarily reflects the lingering adverse impact of COVID-19 on the Company's retail and wholesale revenue streams, as well as the significant impact from store closures relating to the U.S. Partner Bankruptcies. There was $0.8 million in wholesale net revenue recorded in the nine-month period as compared to net revenue of $2.4 million last year, a decrease of 67%.

Discontinued Net Revenue from U.S. Partner Bankruptcies
For the nine-month period ended September 30, 2020, approximately $5.9 million of the net revenue of the period was attributable to the 48 stores of partners affected by the U.S. Partner Bankruptcies (comparable period 2019—$17.9 million). As discussed above, as these partners have or are in process of liquidating their operations, these revenue channels are no longer available to the Company and represent a permanent loss in future revenue for the Company. The Company is planning to replace such revenue, over time, through a combination of increased e-commerce activity and the opportunistic addition of other retail and/or wholesale channel partners.

Gross Profit

In line with the 59.5% reduction in net revenue in the nine-month period ended September 30, 2020, gross profit decreased by 58.1% to $3.2 million as compared to $7.6 million in the nine-month period ended September 30, 2019.

For the nine-month period ended September 30, 2020, gross profit margin increased to 30.8% compared to 29.8% in the nine-month period ended September 30, 2019. The increase in gross margin reflected the Company's ongoing initiatives of optimizing its inventory position, which includes, among other things, managing inventory obsolescence and reducing inventory shrinkage; as well as an increased contribution from e-Commerce operations, which tends to have a higher gross margin. The increase in gross margin for the period was also negatively affected by the impact of the U.S Partner Bankruptcies on net revenue and one-time increased operational costs brought on by the rapid closures of 48 stores during the period.

SG&A Expenses

Throughout the COVID-19 pandemic, the Company has acted proactively in reducing operating costs and right-sizing operation where required given the significant losses in revenue. In the nine-month period ended September 30, 2020, SG&A expenses decreased by 39.5% to $8.1 million, compared to $13.4 million in the nine-month period ended September 30, 2019. This decrease was primarily due to store closures, the partial furloughing of all store employees, and the furloughing and/or reduced work hour arrangements with most of its head office staff, all a result of the COVID-19 pandemic as well as the resulting the U.S. Partner Bankruptcies announced in August 2020 and September 2020.

Despite these reductions, SG&A expense during the third quarter was adversely impacted by $1.6 million in extraordinary charges relating to the U.S. Partner Bankruptcies, which included $0.7 million attributable primarily to bad debt expenses and to one-time non-cash expenses of $0.9 million due to the write-down of store fixtures among other dislocation costs. Excluding these non-cash items, SG&A during the period would have decreased by 51.2%, which given its non-cash nature is positively reflected in this period's cash flow from operations.

As of September 30, 2020, and including certain retail partner employees under the direct supervision (but not direct employees) of the Company, LXRandCo's total employee headcount was 56, a decrease of 244 people from the 300 as of September 30, 2019. The number of employees directly employed by the Company was 56 as of September 30, 2020, as compared to 171 as of September 30, 2019. This decrease in headcount is mainly the result of a streamlined retail salesforce resulting from impact of store closures, the U.S Partner Bankruptcies and other terminations.

Net Loss

In the nine-month period ended September 30, 2020, the Company's net loss decreased by 34.1% to $5.5 million from a net loss of $8.3 million in the nine-month period ended September 30, 2019.

Adjusted Net Loss

In the nine-month period ended September 30, 2020, Adjusted Net Loss decreased by 38.9% to $3.7 million as compared to an Adjusted Net Loss of $6.0 million in the nine-month period ended September 30, 2019. The financial table on page 13 sets forth the reconciliation of Net Loss to Adjusted Net Loss.

Adjusted EBITDA

Despite a 59.5% decline in net revenue, for the nine-month period ended September 30, 2020, Adjusted EBITDA decreased by 45.9% to a loss of $2.6 million as compared to an Adjusted EBITDA loss of $4.8 million in the nine-month period ended September 30, 2019. The financial table on page 13 sets forth the reconciliation of Net Loss to Adjusted EBITDA.

Selected Quarterly Financial Information

The following table summarizes the results of LXRandCo for the most recently completed eight quarters for which financial statements have been prepared since the Company has been a reporting issuer. Except for Adjusted Net Loss and Adjusted EBITDA, which are reconciled from net loss in Key Financial and Operating Information (on page 13), this unaudited quarterly information has been prepared in accordance with IFRS. Due to the Company's change in strategy over the last few years, factors such as seasonality and the material changes brought on by the COVID-19 pandemic, the results of operations for any one quarter are not necessarily indicative of the results of operations for the full year.

	2020			2019				2018
Consolidated statements of loss:	**Q3 $**	**Q2 $**	**Q1 $**	**Q4 $**	**Q3 $**	**Q2 $**	**Q1 $**	**Q4 $**
Total net revenue	**2,857,718**	**1,430,284**	**6,097,604**	14,440,173	8,314,615	8,558,435	8,756,063	10,864,627
Net loss	**(2,786,350)**	**(1,741,391)**	**(974,146)**	(1,682,776)	(2,310,792)	(2,209,055)	(3,859,556)	(3,657,520)
Net loss per share								
Basic	**(0.09)**	**(0.06)**	**(0.04)**	(0.09)	(0.09)	(0.08)	(0.21)	(0.28)
Fully diluted	**(0.09)**	**(0.06)**	**(0.04)**	(0.01)	(0.09)	(0.08)	(0.21)	(0.28)
Adjusted Net Loss	**(1,156,584)**	**(934,116)**	**(1,967,708)**	(522,182)	(1,673,834)	(1,596,708)	(2,584,344)	(2,781,877)
Adjusted EBITDA	**(782,262)**	**(643,919)**	**(1,579,975)**	(73,941)	(1,287,449)	(1,186,171)	(2,212,694)	(2,509,533)
Cash flow from operations	**61,651**	**(721,581)**	**(154,128)**	816,328	(2,794,304)	(2,329,287)	(1,007,543)	404,578

Liquidity and Capital Resources

Overview

LXRandCo's primary uses of funds are for operating expenses, working capital requirements (primarily the purchase of inventory), capital expenditures and debt service requirements. LXRandCo's ability, however, to fund operating expenses, working capital requirements, capital expenditures and future debt service requirements will depend on, among other things, its future operating performance, which will be affected by among other things, general economic, financial and other factors, including factors beyond its control. See "**Going Concern**", "**Factors Affecting Results from Operations**" and "**Risk Factors**" sections in this MD&A for additional information. Occasionally, LXRandCo reviews acquisition opportunities in the normal course of business and may in future decide to make select acquisitions to accelerate its business strategy when suitable opportunities arise. Though there can be no guarantee, Management expects that the funding for any such acquisitions would come from existing cash, cash flow from operating activities, the issuance of additional equity capital and/or its credit facility.

Working Capital

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

Generally, LXRandCo's working capital needs fluctuate at different points in the year, with peak periods resulting from inventory sourcing requirements commencing in February and May and culminating during the holiday season in November and December. In addition, since any store openings tend to be launched in the fall season, working capital requirements may be more pronounced leading up to and during the Company's third quarter period.

As of September 30, 2020, LXRandCo had a working capital surplus of $2.9 million, which was made up of $7.3 million in current assets offset by $4.4 million in current liabilities. Cash on hand on September 30, 2020 was $0.5 million.

In addition, and as set forth below in greater detail, the Company's credit facility requires the Company to regularly 'net' any excess cash balances against outstanding loan balances. While this requirement minimizes the total amount of the Company's loan obligations and reduces financing costs, the Company's reported cash on hand balance is no longer indicative of the full extent of the cash resources available to it. On September 30, 2020, the Company's additional (unused) borrowing availability under the new credit facility was $0.7 million, which together with the Company's reported cash on hand of $0.5 million, gave it available cash resources of $1.2 million on September 30, 2020.

Credit Facilities and Other Indebtedness

The following summarizes the indebtedness incurred by LXRandCo as of September 30, 2020. This summary should be read in conjunction with the unaudited interim condensed consolidated financial statements of the Company for the three-month and nine-month period ended September 30, 2020.

Credit Facilities

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

The Line of Credit bears interest at either (a) the bank's prime rate (2.45% as at September 30, 2020 and 3.95% as at December 31, 2019) or U.S. base rate if denominated in U.S. dollars (3.25% as at September 30, 2020 and 4.75% as at December 31, 2019) plus an applicable margin of 1.00%; (b) the banker's acceptance rate (0.48% as at September 30, 2020 and 2.08% as at December 31, 2019), plus an applicable margin of 2.50%; or (c) LIBOR (0.15% as at September 30, 2020 and 1.8% as at December 31, 2019) plus an applicable margin of 2.50%, all at the Company's option. During the period, the Company incurred financing costs of $66,394 which were deferred and included in the line of credit. The amortization expense of these deferred costs is included in the finance costs.

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

The Line of Credit is subject to a maximum draw based on a borrowing base formula calculated as a percentage of eligible accounts receivable and eligible inventory as defined in the credit agreement. As at September 30, 2020, the amount drawn from the Line of Credit was $2,297,592 ($8,040,897 as at December 31, 2019) as compared to the Company's eligible accounts receivable and inventory amounts of $83,476 and $5,436,429 ($3,128,951 and $4,485,110 as at December 31, 2019) respectively, or a total collateral of $3,010,101 ($7,614,061 as at December 31, 2019). Given this, the Company's additional borrowing availability under the Credit Line at the end of the September 30, 2020 (i.e. total collateral less the amount drawn) was $712,509, which together with the Company's reported cash on hand of $501,033, gave it available cash resources of $1,213,542 on September 30, 2020.

The adverse effects of COVID-19, which caused three of the U.S. Partner Bankruptcies, had a negative impact on the Company's financial performance. The Line of Credit requires the Company to meet certain financial covenants which were not met as at September 30, 2020, as a result the Line of Credit is presented as a current liability on the consolidated statements of financial position

As previously discussed, on May 25, 2020, the Company entered into the non-revolving BCAP loan with a Canadian chartered bank under the Government of Canada's Business Credit Availability Program administered by Business Development Bank of Canada. The BCAP Loan consists of a non-revolving credit facility for a principal amount of $3,000,000.

The BCAP Loan bears interest at the bank's prime rate (2.45% as at September 30, 2020) plus an applicable margin of 3.00%. The BCAP Loan shall amortize over a period of 10 years beginning on the first anniversary of the BCAP Loan, with consecutive monthly payments of principal in an amount of $25,000 starting on June 1, 2021. During the period, the Company incurred financing costs of $66,394 which were deferred and included in the BCAP loan. The amortization expense of these deferred costs is included in the finance costs. The BCAP loan matures on May 25, 2023.

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Cash Flows

The adverse effects of COVID-19 on the North American economy and the resulting U.S. Partner Bankruptcies have had an adverse impact on the Company's overall financial performance. Despite the significant decrease in revenue experienced in 2020, and the resulting impact on the Company's reported net losses, the Company has where possible, proactively managed its cost base so as to minimize cash outlays and costs. As set forth below, despite the U.S. Partner Bankruptcies announced in the third quarter, the Company generated a modest surplus in cash flow from operating activities of $61,651 for the three-month period ended September 30, 2020 (versus a deficit in 2019 of $2,794,304).

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

Cash Flow Data:	**For the three-month period ended September 30,**		**For the nine-month period ended September 30,**	
	2020	**2019**	**2020**	**2019**
Cash flows (used) in operating activities............................	61,651	(2,794,304)	(814,058)	(6,131,134)
Cash flows (used) in investing activities	-	2,204	(6,274)	(13,883)
Cash flows (used) provided by financing activities	(337,116)	1,233,688	(2,331,392)	5,884,129
Cash flows used by discontinued operations…………….	-	(3,052)	-	(26,413)
Effect of exchange rate changes on cash…………………	(21,279)	37,854	153,933	(23,032)
Net (decrease) increase in cash during the period …	**(296,744)**	**(1,523,610)**	**(2,997,791)**	**(310,333)**
Cash, beginning of period...	797,777	3,528,437	3,498,824	2,315,160
Cash, end of period*...	**501,033**	**2,004,827**	**501,033**	**2,004,827**

***** *Company's reported cash balance is no longer indicative of the full extent of the cash resources available to it, thus making a comparison of cash on hand with other periods not relevant.*

Analysis of Cash Flows for the Nine-Month Period Ended September 30, 2020, Compared to the Nine-Month Period Ended September 30, 2019

As set forth in the table above, for the nine-month period ended September 30, 2020, *cash used in operating activities* was a deficit $0.8 million, compared to a deficit of $6.1 million for the nine-month period ended September 30, 2019, resulting in a significant improvement in cash flow from operations of $5.3 million. This decrease in cash used from operations was primarily attributable to material cost reduction measures resulting from the closure of the Company's retail network in late March 2020, the furloughing of most of its employees, fixed cost reductions (including terminations) in response to the COVID-19 pandemic, as well as the impact of the U.S. Partner Bankruptcies.

For the nine-month period ended September 30, 2020, *cash used in investing activities* was almost nil, similar to the nine-month period ended September 30, 2019. Cash used in investing activities was negligible for both periods (i.e. less than $20,000) due to the material reduction in capital expenditures due to the absence of store openings in 2020 and 2019.

For the nine-month period ended September 30, 2020, *cash used in financing activities* was $2.3 million compared to cash provided by financing activities of $5.9 million for the nine-month period ended September 30, 2019, a net decrease in cash funding of $8.2 million. This decrease, however, was primarily attributable to a reduction in equity funding by $4.2 million (i.e. equity funding of $0.8 million for the nine-month period ended September 30, 2020, versus $5.0 million for the nine-month period ended September 30, 2019), and to a material repayment in the Company's Line of Credit of $5.8 million for the nine-month period ended September 30, 2020, offset by a new term loan of $3.0 million in the nine-month period ended September 30, 2020.

As a result of the above changes, for the nine-month period ended September 30, 2020, and after having paid down $5.8 million in the Credit Line, the Company incurred a *net decrease in cash* of $3.0 million, compared to a net increase in cash of $0.3 million for the nine-month period ended September 30, 2019, which resulted in an ending cash balance on September 30, 2020, of $0.5 million compared to $2.0 million on September 30, 2019.

The Company's reported cash on hand of $0.5 million, combined with the Company's additional borrowing availability under its new credit facility, provides it with available cash resources of $1.2 million on September 30, 2020.

Share capital

Concurrent with the closing of the BCAP Loan, and at the request of the Lenders, on June 4, 2020, the Company issued 4,607,143 Class B common shares at a price of $0.175 per share for gross equity proceeds of $806,250. The Company incurred $67,987 of share issuance costs that were recorded as a reduction of the related equity proceeds.

Off-balance sheet arrangements

The Company has not entered into any such arrangements on September 30, 2020 and at the date of this MD&A.

Subsequent Events

During the quarter, three of the Company's long-time U.S.-based retail channel partners filed for creditor protection under Chapter 11 of the Bankruptcy Code in the United States and announced the liquidation of all their assets, prompting the Company to shut all its stores within these banners. This, among other things, has required the Company to (a) incur one-time non-cash expenses of $0.9 million related to the disposal of store fixtures associated with the permanent closure of 68 stores in the U.S.; and (b) ensure that any and all associated receivables be adequately provisioned for. In October 2020, the Company filed individual proof of claim statements against the three individual retail partners. The filing of these non-secured claims will be part of an extended liquidation process and the value and timing of any future recovery payments cannot be guaranteed.

In October 2020, the Company re-opened two stores in Canada that were closed due to the COVID-19 pandemic. The Company now has ten stores open out of a total of 11.

Significant Accounting Judgments, Estimates and Assumptions

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

Critical Judgments in Applying Accounting Policies

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

a) Key sources of estimation uncertainty

Leases

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

b) Critical judgments in applying accounting policies

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

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

Income taxes
The Company may be subject to audits related to tax risks, and uncertainties exist with respect to the interpretation of tax regulations, changes in tax laws, and the amount and timing of future taxable

income. Differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to taxable income and income tax expense already recorded.

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

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

New Accounting Standards Adopted in 2019

In January 2016, the IASB released IFRS 16, Leases, which replaced IAS 17, Leases, IFRIC 4, *Determining whether an Arrangement Contains a Lease*, as well as related interpretations. IFRS 16 introduces a single lessee accounting model for lessee, which comprises significant changes to the lessee accounting by removing the distinction between operating and finance lease and requiring the recognition of a right-of-use asset and a lease liability at commencement for substantially all leases. In contrast to lessee accounting, the requirement for lessor accounting have remained largely unchanged.

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

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

- Maintain previous assessment of whether a contract is, or contains, a lease at the date of initial application;
- Account for operating leases with a remaining lease term of less than 12 months as at January 1, 2019 as short-term leases and leases for which the underlying asset is of low value; and
- Exclude initial direct costs from the measurement of the right-of-use asset at the date of initial application.

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

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

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

i. Recognizes right-of-use assets and lease liabilities in the consolidated statement of financial position, initially measured at the present value of future lease payments;

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

iii. Separates the total amount cash paid into a principal portion (presented within financing activities) and interest (presented within operating activities) in the consolidated statement of cash flows.

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

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

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

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

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

Impact on financial statements

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

Total commitment as presented as at December 31, 2018	1,470,694
(Less): other commitments related to operating leases	(311,019)
Operating lease commitments disclosed as at December 31, 2018	**1,159,675**
Discounted using the Company's incremental borrowing rate at December 31, 2018	987,738
Add: finance lease liabilities recognized as at December 31, 2018	
Payments related to the printer	12,505
Payments included in Head office not included in commitments (2 months)	14,679
(Less): short-term leases recognized on a straight-line basis as expense	(58,781)
Lease liability recognized as at January 1, 2019	**956,141**

The associated rights-of-use assets were measured at the amount equal to the lease liability, adjusted by $18,825, the prepaid lease recognized in the consolidated balance sheet as at December 31, 2018. Property and equipment increased by $974,966, and other liabilities increased by $956,141 on January 1, 2019.

Risk Factors

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

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

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

The Company's management, under the supervision and with the participation of its Chief Financial Officer, conducted an evaluation of the effectiveness of the Company's internal controls over financial reporting as of September 30, 2020, using the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("**COSO**") in Internal Control – Integrated Framework (2013). Based on this evaluation, management concluded that material weaknesses existed as of September 30, 2020.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Company's annual or interim financial statements will not be prevented or detected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those responsible for oversight of the Company's financial reporting. The following material weaknesses were identified in the design and operation of its internal controls:

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

(i) Lack of integration of the Company's information technology systems.

(ii) Limited capabilities of Company's accounting software and consolidation process that involves highly manual processes.

As at September 30, 2020, management concluded that the above material weaknesses, that were initially identified as of December 31, 2018, were not fully remediated. Due to the Company's size and growth, the integration of sophisticated information technology systems with access restrictions and advanced accounting software, may not always be possible and economically feasible. As a result, management has not been able to take all the necessary steps to improve and formalize the Company's internal controls over financial reporting during the period ended September 30, 2020.

Remediation Plan and Activities

As necessary and as funds and other resources permit, management will focus on improving its accounting system to a more robust software that will enable management to improve its financial statements reporting oversight and consolidation process. Management has made progress on segregating conflicting duties and the improvement of management review controls following the modifications made to the Company's financial reporting team in 2019. However, management has determined that the material weaknesses identified were not fully remediated as of September 30, 2020. Material weaknesses cannot be considered remediated until the applicable remedial controls operate for a sufficient period of time and management is able to conclude, through testing, that these controls are operating effectively. Management will continue to monitor and evaluate the effectiveness of internal controls and procedures and internal controls over financial reporting on an ongoing basis and is committed to taking further action and implementing additional enhancements and improvements.

Additional Information

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