LXR AND CO

LXRandCo, Inc.

Interim Condensed Consolidated Financial Statements

Three-month and six-month periods ended

June 30, 2020 and 2019

LXRandCo, Inc.

Consolidated statements of financial position

(in Canadian dollars)

As at	June 30, 2020 $	Unaudited December 31, 2019 $
Assets		
Current		
Cash *(note 5, 13)*	**797,777**	3,498,824
Accounts receivable	**756,525**	3,804,461
Sales tax receivable	**186,185**	437,946
Inventory	**7,478,520**	7,645,646
Right of return asset	**3,734**	73,158
Prepaid expenses and deposits	**285,151**	208,628
Total current assets	**9,507,892**	15,668,663
Property and equipment, net	**2,094,760**	2,472,334
Intangible assets, net	**94,843**	177,654
Total assets	**11,697,495**	18,318,651
Liabilities and shareholders' equity		
Current		
Refund liabilities	**8,506**	149,116
Accounts payable and accrued liabilities	**4,605,881**	5,680,331
Income tax payable	**12,070**	38,665
Deferred revenue	**55,634**	128,949
Sales taxes payable	**50,159**	39,225
Line of credit *(note 5)*	**—**	8,040,897
Current portion of long-term debt *(note 4)*	**—**	3,434
Current portion of other liabilities	**252,282**	255,373
Total current liabilities	**4,984,532**	14,335,990
Line of credit *(note 5)*	**2,506,704**	—
Long-term debt *(note 4)*	**2,932,166**	—
Other liabilities	**1,281,917**	1,290,665
Total liabilities	**11,705,319**	15,626,655
Shareholders' equity		
Share capital *(note 6)*	**95,593,137**	94,854,874
Warrants *(note 6)*	**12,940,438**	12,940,438
Contributed surplus	**1,689,896**	1,655,974
Accumulated other comprehensive gain (loss)	**(671,896)**	84,572
Deficit	**(109,559,399)**	(106,843,862)
Total shareholders' equity	**(7,824)**	2,691,996
	11,697,495	18,318,651

Going concern due to COVID-19 *(note 1)*
Subsequent event *(note 14)*

See accompanying notes

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

On behalf of the Board:

Director
By: (Valerie Sorbie)

Director
By: (Camillo di Prata)

LXRandCo, Inc.

Consolidated statements of loss and comprehensive loss

(in Canadian dollars)

Unaudited

	For the three-month period ended June 30, 2020	2019	For the six-month period ended June 30, 2020	2019
	$	$	$	$
Net revenue *(notes 7 and 11)*	1,430,284	8,558,435	7,527,888	17,314,498
Cost of sales	949,401	5,697,725	5,130,655	12,276,123
Gross profit	**480,883**	**2,860,710**	**2,397,233**	**5,038,375**
Selling, general and administrative expenses *(note 8)*	1,353,488	4,153,308	5,300,680	9,128,209
Amortization and depreciation expenses	134,014	289,261	354,690	507,704
Loss from operating activities	**(1,006,619)**	**(1,581,859)**	**(3,258,137)**	**(4,597,538)**
Finance costs	156,183	112,939	323,240	226,280
Foreign exchange loss (gain)	578,589	455,982	(865,840)	1,146,650
Loss on disposition of subsidiaries	—	19,542	—	19,542
Loss before income taxes	**(1,741,391)**	**(2,170,322)**	**(2,715,537)**	**(5,990,010)**
Income tax expense				
Current	—	8,338	—	48,203
	—	**8,338**	**—**	**48,203**
Net loss from continuing operations	**(1,741,391)**	**(2,178,660)**	**(2,715,537)**	**(6,038,213)**
Net loss from discontinued operations *(note 9)*	—	(30,396)	—	(38,017)
Net loss	**(1,741,391)**	**(2,209,056)**	**(2,715,537)**	**(6,076,230)**
Other comprehensive gain (loss)				
Cumulative translation adjustment	679,056	345,562	(756,468)	796,369
Comprehensive loss	**(1,062,335)**	(1,863,494)	**(3,472,005)**	(5,279,861)
Loss per share *(notes 9 and 10)*				
Total basic and fully diluted for the year	(0.06)	(0.08)	(0.09)	(0.27)
From continuing operations - basic and fully diluted	(0.06)	(0.08)	(0.09)	(0.27)
Weighted average number of shares outstanding – basic and fully diluted	29,861,255	26,817,328	29,018,633	22,466,499

See accompanying notes

LXRandCo, Inc.

Consolidated statements of changes in shareholders' equity

(in Canadian dollars)

Unaudited

	Share capital $	Warrants $	Contributed surplus $	Cumulative translation adjustment $	Deficit $	Total shareholders' equity $
Balance as at January 1, 2019	90,202,459	12,940,438	1,536,635	(1,266,958)	(96,426,236)	6,986,338
Net loss for the period	—	—	—	—	(6,076,230)	(6,076,230)
Stock-based compensation expense *(note 6)*	—	—	61,527	—	—	61,527
Cumulative translation adjustment	—	—	—	796,369	—	796,369
Class B common shares issued *(note 6)*	5,000,000	—	—	—	—	5,000,000
Equity issuance costs *(note 6)*	(347,585)	—	—	—	—	(347,585)
Balance as at June 30, 2019	94,854,874	12,940,438	1,598,162	(470,589)	(102,502,466)	6,420,419
Net loss for the period	—	—	—	—	(4,341,396)	(4,341,396)
Stock-based compensation expense *(note 6)*	—	—	57,812	—	—	57,812
Cumulative translation adjustment	—	—	—	555,161	—	555,161
Balance as at December 31, 2019	94,854,874	12,940,438	1,655,974	84,572	(106,843,862)	2,691,996
Net loss for the period	—	—	—	—	**(2,715,537)**	**(2,715,537)**
Stock-based compensation expense *(note 6)*	—	—	**33,922**	—	—	**33,922**
Cumulative translation adjustment	—	—	—	**(756,468)**	—	**(756,468)**
Class B common shares issued *(note 6)*	**806,250**	—	—	—	—	**806,250**
Equity issuance costs *(note 6)*	**(67,987)**	—	—	—	—	**(67,987)**
Balance as at June 30, 2020	**95,593,137**	**12,940,438**	**1,689,896**	**(671,896)**	**(109,559,399)**	**(7,824)**

See accompanying notes

LXRandCo, Inc.

Consolidated statements of cash flows

(in Canadian dollars)

For the six-month period ended June 30	2020 $	Unaudited 2019 $
Operating activities		
Net loss from continuing operations	**(2,715,537)**	(6,038,213)
Non-cash items:		
Depreciation of property and equipment	**266,942**	383,198
Amortization of intangible assets	**87,748**	124,506
Amortization of deferred financing costs	**1,252**	—
Stock-based compensation expense	**147,909**	9,420
Loss on disposition of assets	**169,578**	132,777
Loss on disposition of subsidiaries	**—**	19,542
Unrealized foreign exchange (gain) loss on non-monetary assets	**(6,438)**	26,708
Deferred income taxes	**—**	48,203
	(2,048,546)	(5,293,859)
Net change in non-cash working capital balances related to operations	**1,172,837**	1,957,029
Cash flows used in operating activities	**(875,709)**	(3,336,830)
Investing activities		
Acquisitions of intangible assets	**(4,937)**	—
Acquisitions of property and equipment	**(1,337)**	(16,087)
Cash flows used in investing activities	**(6,274)**	**(16,087)**
Financing activities		
Net decrease of line of credit	**(5,535,181)**	52,077
Payment of lease liabilities	**(125,826)**	—
Proceeds from issuance (repayment) of long-term debt	**2,928,468**	(54,051)
Proceeds from issuance of class B common shares	**806,250**	5,000,000
Equity issuance costs	**(67,987)**	(347,585)
Cash flows (used) provided by financing activities	**(1,994,276)**	4,650,441
Cash flows from discountinued operations ***(note 9)***	**—**	(23,361)
Effect of exchange rate changes on cash on operating activities	**175,212**	(60,886)
Net (decrease) increase in cash	**(2,701,047)**	1,213,277
Cash, beginning of period	**3,498,824**	2,315,160
Cash, end of period	**797,777**	3,528,437
Supplementary information (as reported in operating activities)		
Interest paid	**134,126**	117,777

See accompanying notes

Notes to the interim condensed consolidated financial statements

(in Canadian dollars)

Three-month and six-month periods ended June 30, 2020 and 2019
Unaudited

1. Corporate information

LXRandCo, Inc. (“LXRandCo” or the “Company”) is a North-American omni-channel retailer of branded vintage luxury handbags and accessories. LXRandCo sources and authenticates high-quality pre-owned products and sells them through: a retail network of stores located in major department stores in Canada and the United States; wholesale operations primarily in the United States; and e-commerce operations including its own website and through the websites of several of its retail partners. LXRandCo is incorporated and domiciled in Canada. The Company’s legal registered address is at 100 Adelaide Street West, Toronto, Ontario, M5H 1S3 and its operating head office is located at 7399 Blvd. St-Laurent, Montréal, Québec, Canada, H2R 2W5. The Company also maintains an office in Tokyo, Japan, housing the product preparation and sourcing teams. The Tokyo office also serves as a distribution center where most of the Company's merchandise purchases are received and products for sale are subsequently shipped to warehouse facilities and retail stores in North America.

As at June 30, 2020, LXRandCo’s retail network consisted of 59 stores located as follows: 48 in the United States and 11 in Canada. As at June 30, 2020, 39 of LXRandCo’s stores were open following the temporary closure of all of its stores due to the COVID-19 pandemic in March 2020 (see below).

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 12 months from the statement of financial position date. When the Company identifies conditions or events that raise potential for significant doubt about its ability to continue as a going concern, the Company considers whether its plans that are intended to mitigate those relevant conditions or events will alleviate the potential significant doubt. The mitigating effect of management’s plans are considered to the extent that: a) it is probable that the plans will be effectively implemented and, if so, b) it is probable that the plans will mitigate the conditions or events that raise significant doubt about the Company’s ability to continue as a going concern.

The accompanying 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 six-month period ended June 30, 2020, the Company incurred a net loss of $2,715,537 (six-month period ended, 2019 – net loss of $6,038,213) and had negative operating cash flows of $875,708 (six-month period ended June 30, 2019 – negative operating cash flows $3,336,830). In addition, at

June 30, 2020, the Company had a working capital surplus of $4,523,360 (December 31, 2019 – working capital surplus of $1,332,673) and an accumulated deficit of $109,559,399 (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's activities involve material risk and uncertainty, and the future profitability of the Company is dependent upon a number of factors, including increasing sales, reducing SG&A, the underlying health and viability of its retail partners, general economic conditions and on consumer sentiment in general, and in the near to medium-term, any possible sustained negative effects of 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.

2. Basis of Preparation

(a) Statement of compliance

The Company's unaudited interim condensed consolidated financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting and using the same accounting policies as those described in the Company's annual consolidated financial statements for the year ended December 31, 2019. The Company's annual consolidated financial statements for the year ended December 31, 2019 were prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

These unaudited interim condensed consolidated financial statements do not include all of the information required under IFRS for complete financial statements and they should therefore be read in conjunction with the Company's annual consolidated financial statements for the year ended December 31, 2019. The Company's unaudited interim condensed consolidated financial statements and annual consolidated financial statements are available on the SEDAR website at www.sedar.com and on the Company's website at www.lxrco.com.

These unaudited interim condensed consolidated financial statements were authorized for issuance by the Company's Board of Directors (the ''Board'') on August 13, 2020.

(b) Seasonality of the business

The Company's net sales are subject to seasonal variations. Net sales have historically been higher during the fourth quarter, however for fiscal 2020 net sales may not follow historical patterns due to the impact of COVID-19.

(c) Operating segments

The Company manages its business on the basis of one reportable operating segment.

(d) Initial application of new accounting standards and interpretations in the reporting period

On January 1, 2020, the Company adopted the following new amendment:

Amendments to IFRS 3, Business combinations

In October 2018, the IASB issued amendments to IFRS 3, Business combinations. The amendments clarify the definition of a business, with the objective of assisting entities in determining whether a transaction should be accounted for as a business combination or as an asset acquisition. The amendments are effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2020 and apply prospectively. Given the prospective application of the amendment, its adoption did not have an impact.

3. New Accounting Standards and Interpretations Not Yet Applied

Amendments to IAS 1, Presentation of Financial Statements

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

4. Long-Term Debt (BCAP Loan)

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 to provide additional liquidity support to Canadian businesses and entrepreneurs facing economic hardship as a result of COVID-19. The BCAP Loan consists of a non-revolving credit facility for a principal amount of $3,000,000.

The BCAP Loan bears interest at the bank's prime rate (2.45% as at June 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.

5. Line of Credit

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

The Line of Credit bears interest at either (a) the bank's prime rate (2.45% as at June 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 June 30, 2020 and 4.75% as at December 31, 2019) plus an applicable margin of 1.00%; (b) the banker's acceptance rate (0.52% as at June 30, 2020 and 2.08% as at December 31, 2019), plus an applicable margin of 2.50%; or (c) LIBOR (0.16% as at June 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 (see Note 13).

(in Canadian dollars)

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 June 30, 2020, the amount drawn from the Line of Credit was $2,571,675 ($8,040,897 as at December 31, 2019) as compared to the Company's eligible accounts receivable and inventory amounts of $51,825 and $4,289,986 ($3,128,951 and $4,485,110 as at December 31, 2019) respectively, or a total collateral of $4,341,811 ($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 June 30, 2020 (i.e. total collateral less the amount drawn) was $1,770,136, which together with the Company's reported cash on hand of $797,777, gave it available cash resources of $2,567,913 on June 30, 2020.

The Line of Credit requires the Company to meet certain financial covenants which were met as at June 30, 2020.

6. Share capital

a) Issued

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

	Number \#	**Amount** $
Balance, December 31, 2019	28,176,012	94,854,874
Share issuance, net of issuance costs	4,607,143	738,263
Balance, June 30, 2020	**32,783,145**	**95,593,137**

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

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.

Notes to the interim condensed consolidated financial statements

(in Canadian dollars)

Three-month and six-month periods ended June 30, 2020 and 2019
Unaudited

c) Warrants

As at June 30, 2020, 10,861,250 warrants to purchase Class B common shares of the Company are outstanding. Each warrant became exercisable 30 days after the completion of the Qualifying Acquisition, to purchase one Class B common share at an exercise price of $11.50 per share. The warrants will expire on June 9, 2022 or may expire earlier if the expiry date is accelerated pursuant to the terms of the warrant agreement, including if the closing price of the Company's Class B common shares on the TSX equals or exceeds $24.00. The fair value of the warrants was established at $12,940,438 at the LXR Acquisition date.

d) Long-term Incentive Plan (LTIP)

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

There were 137,500 stock options granted during the six-month period ended June 30, 2020 to purchase Class B common shares of the Company at $0.40 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 March 24, 2030. No stock options were granted during the year ended December 31, 2019.

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

	June 30, 2020		December 31, 2019	
	Number #	Weighted average exercise price $	Number #	Weighted average exercise price $
Options beginning of period / year	152,528	3.26	287,312	2.49
Granted	137,500	0.40	-	-
Forfeited/Cancelled	-	-	(134,784)	1.70
Outstanding, end of period / year	**290,028**	**1.90**	152,528	3.26
Options exercisable at end of period / year	**126,896**	**3.58**	101,264	4.06

(in Canadian dollars)

The following table summarizes information about the outstanding stock options granted by the Company as at June 30, 2020:

		Options outstanding		Options exercisable
	Exercise price	Number of options	Weighted average remaining contractual life	Number of options
	$	#	year	#
	1.68	102,528	6.69	76,896
	6.50	50,000	2.51	50,000
	0.40	137,500	9.74	-
Total	**1.90**	**290,028**	**7.42**	**126,896**

The stock-based compensation expense related to stock options of $33,922 (December 31, 2019 – $119,339), is recorded in the consolidated statement of loss and comprehensive loss in selling, general and administrative expenses.

ii. Deferred share unit plan

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

The plan was approved by the Board in 2017 and approved by both the TSX and the Company’s shareholders in 2018.

Measurement at the grant date

The number of DSUs granted is determined based on the five-day volume-weighted average share price of the Company leading up to the end of the quarter.

During the six-month period ended June 30, 2020, the Company granted directors 791,565 DSUs (2,025,507 as at December 31, 2019) for a total expense of $193,000 (2019 – $445,500) which has been recorded in the Company’s consolidated statement of loss and comprehensive loss under 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 closing share price of the Company's Class B common shares on the TSX at period end.

As at June 30, 2020, the fair value of the DSUs was $535,769 (532,244 as at December 31, 2019), resulting in a non-cash loss of $50,665 (2019 – $2,378) which has been recorded in the Company's consolidated statement of loss and comprehensive loss under 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 DSU plan provide the Company with the choice of either settling the DSUs in cash or by issuing equity instruments.

iii. Performance share units

Performance share units ("PSUs") are awarded to eligible employees and directors under the LTIP. Under this plan, each eligible employee or director may receive a payment either in the form of the Company's Class B common shares purchased on the open market, cash, or a combination of both. The number of PSUs granted is determined based on the five-day volume-weighted average share price of the Company's Class B common shares immediately preceding the grant of the PSU award.

The DSU plan was approved by the Board in 2017 and approved by both the TSX and the Company's shareholders in 2018.

Measurement at the grant date
On November 26, 2018, the Company granted 83,333 PSUs, and recognized a compensation expense of $1,880. Since that date, no additional PSUs have been issued by the Company.

Measurement at the end of the reporting period
As at June 30, 2020, the fair value of the PSUs was $17,126 ($11,441 as at December 31, 2019). As a result, the Company incurred a non-cash gain of $2,055 (expense in December 31, 2019 - $2,417) which it recorded in the Company's consolidated statement of loss and comprehensive loss under selling, general and administrative expenses.

The outstanding PSUs are presented as other liabilities in the consolidated statement of financial position, as the terms of the PSU plan provide the Company with the choice of either settling the PSUs in cash and/or by issuing equity instruments.

e) Cash-Settled Units ("CSUs")

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

The plan was approved by the Board in May 2020.

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

During the six-month period ended June 30, 2020, the Company granted to participants 418,728 CSUs (nil as at December 31, 2019) for a total non-cash expense of $100,000 (2019 – nil), which was recorded in the Company’s consolidated statement of loss and comprehensive loss under selling, general and administrative expenses.

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

As at June 30, 2020, the fair value of the CSUs was $104,682 (nil as at December 31, 2019), which resulted in a non-cash loss of $4,682 (2019 – nil), which was recorded in the Company’s consolidated statement of loss and comprehensive loss under selling, general and administrative expenses.

CSUs are presented as other liabilities in the consolidated statement of financial position, as the terms of the CSU plan provides the Company with the choice of either settling the CSU obligations in cash or by issuing equity instruments.

7. Revenue

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

(in Canadian dollars)

The following table summarizes the Company's revenues through these three sales channels:

	For the three-month period ended June 30,		For the six-month period ended June 30	
	2020	2019	**2020**	2019
	$	$	**$**	$
Retail	**627,626**	7,320,049	**4,927,698**	14,125,547
Wholesale	**-**	278,861	**816,644**	1,625,403
E-commerce	**802,658**	959,525	**1,783,546**	1,563,548
	1,430,284	8,558,435	**7,527,888**	17,314,498

8. Selling, general and administrative expenses

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

	For the three-month period ended June 30,		For the six-month period ended June 30	
	2020	2019	**2020**	2019
	$	$	**$**	$
Wages, salaries and employee benefits	**509,577**	3,299,678	**2,521,406**	6,664,274
Professional fees	**223,532**	263,290	**680,081**	979,533
Stock-based compensation	**57,528**	(69,953)	**497,910**	9,420
Bad debt expense/(recovery)	**6,064**	(326,957)	**409,796**	(252,711)
Store-related opening and closing costs	**1,580**	43,603	**12,065**	73,921
Reporting issuer costs	**32,336**	186,197	**84,803**	431,966
Disposals and impairment	**169,578**	132,777	**169,578**	132,777
Travel and entertainment	**898**	115,089	**91,758**	267,254
Other	**352,395**	509,584	**833,283**	821,775
	1,353,488	4,153,308	**5,300,680**	9,128,209

9. 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 were reclassified and presented separately as discontinued operations in the Company's consolidated statements of loss and comprehensive loss and the consolidated statements of cash flows. These subsidiaries were dissolved during the year ended December 31, 2019.

(in Canadian dollars)

The net loss from discontinued operations is detailed as follows:

	For the three-month period ended June 30,		For the six-month period ended June 30	
	2020	2019	**2020**	2019
	$	$	**$**	$
Selling, general, and administrative expenses	**-**	(30,909)	**-**	(38,185)
Loss from operating activities	**-**	(30,909)	**-**	(38,185)
Other expenses	**-**	513	**-**	168
Net loss from discontinued operations	**-**	(30,396)	**-**	(38,017)
Loss per share from discontinued				
Basic and diluted	**(0.00)**	(0.00)	**(0.00)**	(0.00)

There were no income tax effects related to discontinued operations for any of the three-month and six-month periods ended June 30, 2020 and 2019.

The cash flows from discontinued operations is detailed as follows:

	For the three-month period ended June 30,		For the six-month period ended June 30	
	2020	2019	**2020**	2019
	$	$	**$**	$
Net cash flows from operating activities	**-**	(53,288)	**-**	(23,361)
Net cash flows from investing activities	**-**	-	**-**	-
Net decrease in cash	**-**	(53,288)	**-**	(23,361)

10. Earnings (loss) per share

Basic earnings (loss) per share (“EPS”) amounts are calculated by dividing the profit (or loss) for the three-month period attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the period reduced by the forfeitable founder’s shares. Diluted EPS amounts are calculated by dividing the profit (or loss) attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the period reduced by the forfeitable founder’s shares plus the weighted average number of ordinary shares that would be issued on conversion of any and all warrants and stock-based awards , unless these instruments are judged to be antidilutive. For the six-month periods ended June 30, 2020 and 2019, as a result of the net losses incurred during those periods, all Company warrants and stock-based awards are anti dilutive.

(in Canadian dollars)

11. Segment information

The Company conducts its activities in a single industry segment being the only operating segment it uses to evaluate performance and allocate resources. The single operating segment includes all sales channels accessed by the Company's customers, including sales through the Company's retail network of stores, wholesale partners and online through its website. With respect to geographic areas, the Company's continuing operations are in Canada and the United States.

The following table summarize net revenue held by geography:

	For the three-month period ended June 30,		For the six-month period ended June 30	
	2020	2019	**2020**	2019
	$	$	**$**	$
Canada	**336,455**	762,827	**1,145,977**	1,520,697
United States	**1,093,829**	7,795,608	**6,381,911**	15,793,801
	1,430,284	8,558,435	**7,527,888**	17,314,498

12. Financial risk management

Fair values

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

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

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

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

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

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 the other liabilities bearing variable rates is considered to approximate its carrying value (Level 2).

The fair values of the Company's other financial instruments are considered to approximate their carrying values due to their short-term maturities. There were no significant transfers between Level 1, Level 2 and Level 3 of the fair value hierarchy during the three-month and six-month periods ended June 30, 2020 and 2019.

13. Comparative figures

The reported cash balance on June 30, 2020 of $797,777, is the amount of cash on hand that is unencumbered by the terms of the Credit Line. As discussed above, the Company's new Line of Credit requires the Company to apply all excess cash deposits to the outstanding loan balance under the Line of Credit. Given this cash "netting" factor, the reported cash balance is not directly comparable to that of prior periods.

The losses on disposals and impairment were reclassified from other income and expenses to selling, general and administrative expenses in the consolidated statements of loss and comprehensive loss. This reclassification had no impact to the net losses of the current and the prior period.

14. Subsequent events

In early May 2020, since the impact of the COVID-19 pandemic, which led to temporary store closings in March 2020, certain of the Company's retail partners commenced gradual store re-openings in select market locations (albeit with reduced operating hours and staffing levels). Currently, the Company has 40 stores open out of a total 59 in its network, which it anticipates will continue to materially impact its financial results in the third quarter of the year.

The Company believes the ongoing effects of COVID-19 on its operations, particularly in a prolonged scenario, will have a material negative impact on its financial results and liquidity. Where possible, the Company is taking additional actions to improve its liquidity, including accelerating its e-commerce online activities, and initiating capital expenditure and expense reductions and deferrals. The Company's activities involve material risk and uncertainty, and the future profitability of the Company is dependent upon a number of factors, including increasing sales, reducing SG&A, the underlying health and viability of its retail partners, general economic conditions and on consumer sentiment in general, and in the near to medium-term, any possible sustained negative effects of COVID-19 on consumer confidence and buying patterns.

On August 12, 2020, Stein Mart Inc. ("**Stein Mart**"), a retail channel partner of the Company, filed for creditor protection under Chapter 11 of the Bankruptcy Code in the United States, in which it expects to close a significant portion, if not all, of its brick-and-mortar stores and, in connection therewith, has launched a store closing and orderly liquidation process. Currently, LXRandCo has 28 out of its 40 open stores within the Stein Mart's retail network. The Company is in the process of recovering all of its store inventory from Stein Mart store locations. There are no material receivables or other outstanding assets at risk or material closing costs arising from this filing. While the Company believes that the Stein Mart store closures will have a material impact on future retail revenue, it believes that the impact on profitability will be more muted.