LXRandCo

LXRandCo, Inc.

MANAGEMENT'S DISCUSSION AND ANALYSIS
Fourth Quarter and Fiscal Year Ended December 31, 2020

March 31, 2021

The following management's discussion and analysis ("MD&A") dated March 31, 2021 is intended to assist readers in understanding the business environment and financial performance of LXRandCo, Inc. (together with its consolidated subsidiaries, referred to herein as "LXRandCo" or the "Company"). This MD&A should be read in conjunction with the audited consolidated financial statements of LXRandCo and the accompanying notes thereto for the fiscal year ended December 31, 2020.

Basis of Presentation

The consolidated financial statements of LXRandCo have been prepared in accordance with International Financial Reporting Standards, as issued by the International Accounting Standards Board ("IFRS"), 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 preparation of the consolidated financial statements requires us to undertake a number of judgments and estimates about the recognition and measurement of assets, liabilities, revenues, and expenses, which includes relying on the going concern assumption.

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

The consolidated financial statements and the accompanying notes thereto for the year ended December 31, 2020, and this MD&A were approved by the Board of Directors on March 29, 2021.

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", "Adjusted Net Loss" and "Free Cash Flow". These non-IFRS measures are used to provide investors with supplemental measures of LXRandCo's operating performance and thus highlight trends in LXRandCo's core business that may not otherwise be apparent when relying solely on IFRS measures. Management believes that securities analysts, investors and other interested parties frequently use non-IFRS measures in the evaluation of company performance. Management also uses non-IFRS measures 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, Adjusted Net Loss and Free Cash Flow, and a reconciliation of these non-IFRS measures to IFRS measures, see "How Management Assesses the Performance of LXRandCo" and "Key Financial and Operating Information" 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, e-commerce growth and penetration, the state of wholesale demand, new store openings, store productivity, margin improvements, and future acquisitions, as well as other statements with respect to management's beliefs, plans, estimates and intentions, and similar statements concerning anticipated future events, results, outlook, circumstances, performance or expectations that are not historical facts.

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

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

Generally, and especially given this unprecedented period of uncertainty brought about by the COVID-19 pandemic (see "Update on COVID-19 and Impact on Financial Statements" below), 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 authenticated pre-owned handbags and personal accessories. We provide consumers with authenticated branded luxury products from Hermès, Louis Vuitton, Gucci, Prada and Chanel, among other high-quality brands, by promoting their reuse and providing an environmentally-responsible way for consumers to purchase luxury products. We achieve this through our digital-first strategy by selling directly to consumers through our website at www.lxrco.com, and indirectly by powering the e-commerce and other platforms of key channel partners. Our omni-channel model is also supported by retail 'shop-in-shop' experience centers and by wholesale activities with select retail partners across North America.

Unlike most companies in the North American luxury resale market, our product assortment is highly focused in both the number of brands and breadth of products offered, and we seek to predominantly own all our product inventory. We believe that our differentiated sourcing model of owning merchandise, as opposed to offering products that have been temporarily consigned to us by sellers, allows us greater control over authentication, quality and merchandising strategy. In addition, our funding model allows us the flexibility to source targeted merchandise at scale, thereby providing our customers and our channel partners seeking volume with the products they want.

On December 31, 2020, we employed 42 people across our retail network of ten 'shop-in-shop' LXRandCo branded experience centers located across Canada, and our two offices in Montreal, Canada, and Tokyo, Japan.

History

Founded in Montreal, Canada in 2010, LXRandCo was an early participant in the evolution of the luxury resale industry, established primarily as a wholesaler of pre-owned branded luxury products.

In 2013, we launched our e-commerce business and later that year we opened our first stand-alone retail store located in Beverly Hills, California.

In 2014 and 2015, we expanded our retail activities by transitioning to a smaller and more flexible 'shop-in-shop' model under which we established stores in partnership with select retailers across North America. At the end of 2015, we operated 15 stores across Canada and the United States.

In 2016, as our retail model grew, we secured venture capital funding which allowed us to more than double our retail network to 46 stores (with 32 located 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 we were profitable on an Adjusted EBITDA basis.

In 2017, in order to meet the significant and growing demand from retail partners for added store locations, we launched an expansion plan and sought additional growth capital. In June 2017, through a reverse-merger with a publicly-traded company, we raised $25.0 million in gross proceeds through the sale of Class B common shares and became a publicly-traded company listed on the Toronto Stock Exchange. During the year, we opened 90 stores, substantially expanding our presence in Europe and nearly tripling our retail network to 133 stores. At the end of 2017, we operated 96 stores in the United States, 9 in Canada and 28 in Europe. This store expansion, which arose primarily in the second half of the year, placed a significant management burden on our operations and, among other things, led to an adverse impact on our gross margin and a substantial increase of our expense base, which resulted in a substantial use of cash from operating activities. While our revenue in 2017 grew 69% to $37.1 million, our gross profit margin declined to 24.8%, and Adjusted EBITDA came in at a loss of $5.1 million.

In 2018, we completed a public offering of Class B common shares raising gross proceeds of $14.3 million. In the second quarter of 2018, with profitability materially lagging behind plan, we refocused our strategy and implemented cost-reduction initiatives to regain our historical gross margin and profitability levels. Among the key initiatives was a refocusing of our merchandising strategy and a downsizing of the retail network, which led to the closure of our European store network and certain unprofitable locations in the U.S. and Canada. In addition, in April 2018, we transitioned away from a founder-led leadership team and the Board appointed Steven Goldsmith, a director of the Company, to the position of Chief Executive Officer. In August 2018, in an internal strategic process led by our independent directors, we initiated a "strategic review" of our operations aimed at among other things, securing additional funding and re-positioning the company for growth. Revenue in 2018 was $39.0 million, gross profit margin was 25.0% and Adjusted EBITDA came in at a loss of $12.7 million. At the end of the year, our retail network consisted of 86 stores, down from 131 at the beginning of the year.

In March 2019, pursuant to the Board's strategic review, we completed a private placement of Class B common shares for gross proceeds totalling $5.0 million. In May 2019, we transitioned from a founder-led Board to one comprised of experienced directors. Among other things, we reduced the size of the Board from eight to six and appointed two new independent directors—Eric Graveline and Nicolas Topiol—and appointed Valerie Sorbie as our Board Chair. In September 2019, we decided to further accelerate the pace of change and our Chief Executive Officer, Steven Goldsmith, left the company. Mr. Goldsmith was replaced by an "Office of the President", composed of two directors—Valerie Sorbie (as Executive Chair) and Camillo di Prata (as interim Chief Executive Officer of the Company) who immediately implemented a focused cost reduction plan and accelerated investment in our e-commerce activities. Revenue in 2019 was $40.1 million, gross profit margin was 30.9% and Adjusted EBITDA came in at a loss of $4.7 million. Of note, however, revenue in the fourth quarter of 2019 was a record $14.4 million, gross profit margin was 32.8% and our Adjusted EBITDA was at a near break-even level of $0.1 million. At the end of the year, our retail network consisted of 80 stores, 70 located in the U.S. and 10 in Canada.

Recent Events

Despite entering 2019 with momentum and positioned for growth, 2020 became the most challenging year in our history. In March 2020, the outbreak of the COVID-19 pandemic forced the temporary closure of our 80 stores, which along with no wholesale revenue, reduced our revenue sources to almost nil and severely constrained our cash flow.

In May 2020, our largest wholesale U.S. partner, Stage Stores, filed for bankruptcy. At that time, we managed to secure emergency funding and entered into a $3.0 million non-revolving term loan under the Government of Canada's Business Credit Availability Program (the "BCAP Loan"). Additionally, we also successfully renewed our $12.5 million line of credit for an additional three-year term. Concurrent with the closing of the BCAP Loan and the renewal of the line of credit, in June 2020 we completed a private placement of Class B common shares for gross proceeds of $806,250.

During the third quarter of 2020, our three long-standing U.S.-based retail channel partners, Lord & Taylor, Stein-Mart Stores and Century 21, all filed for bankruptcy, which permanently decreased our retail store network by 70 stores (collectively, the "US Partner Bankruptcies"). In September 2020, after laying the groundwork in late 2019 and throughout 2020, we announced our shift in strategy to a "digital-first" omni-channel model, whereby our strategic priorities would focus primarily on accelerating the growth of our lxrco.com site and powering the ecommerce platforms of our channel partners. As a result of this shift in strategy, we now operate in two distinct channels—e-commerce and retail, which includes our stores and wholesale activities

On December 23, 2020, to fund the transition to our digital-first model, we completed a $7.5 million financing of units consisting of one Class B share and a one-quarter of one Class B share purchase warrant.

In 2020, the adverse impact of COVID-19 and the US Partner Bankruptcies led to a year-over-year decline in revenue of 66%. Revenue in 2020 was $13.8 million, gross profit margin was 31.3% and our Adjusted EBITDA came in at a loss of $3.3 million. At the end of the year, our retail network consisted of 10 stores, all located in Canada, of which only three were open at year-end due to COVID-19 restrictions.

Financial and Operating Highlights

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

Overview of Results for the Three-Month Period Ended December 31, 2020 ("Q4 2020"), compared to the Three-Month Period Ended December 31, 2019 ("Q4 2019")

Selected financial highlights include the following:

- Total net revenue decreased 76.5% to $3.4 million from $14.4 million.

- E-commerce net revenue increased 45.9% to $1.7 million and e-commerce average order value ("AOV") increased 10.3% to $892 per transaction. E-commerce net revenue as a proportion of total net revenue increased to 50.6% versus 8.1%.

- E-commerce net revenue excluding the U.S. Partner Bankruptcies, increased 55.6%.

- Retail net revenue was $0.4 million versus $7.9 million, a decrease of 94.4%. At year-end we had a network of ten stores, a reduction of 70 stores versus Q4 2019, of which three were in operation.

- Gross profit margin remained stable at 32.7% compared to 32.8%.

- Selling, general and administrative ("SG&A") expenses decreased by 61.4% to $2.2 million, representing 65.8% of net revenue, from $5.8 million, or 40.0% of net revenue.

- Adjusted Net loss (a non-IFRS measure) was $0.9 million versus an Adjusted Net Loss of $0.5 million.

- Adjusted EBITDA Loss (a non-IFRS measure) was $0.7 million versus an Adjusted EBITDA Loss of $0.1 million.

- Free Cash Flow (a non-IFRS measure) decreased to an outflow of ($0.6) million as compared to $0.8 million.

- Cash availability at the end of Q4 2020 totalled $7.3 million as compared to $3.5 million.

Overview of Results for the Year Ended December 31, 2020 ("FY 2020"), compared to the Year Ended December 31, 2019 ("FY 2019")

Selected financial highlights include the following:

- Total net revenue decreased 65.6% to $13.8 million from $40.1 million.

- E-commerce net revenue increased 17.6% to $4.4 million and e-commerce AOV increased 11.6% to $876 per transaction. E-commerce net revenue as a proportion of total net revenue increased to 31.8% versus 9.3%.

- E-commerce net revenue excluding the U.S. Partner Bankruptcies, increased 21.4%.

- Retail net revenue was $7.4 million versus $28.6 million, a decrease of 74.2 %.

- Gross profit margin increased to 31.3% compared to 30.9%.

- SG&A expenses decreased by 46.1 % to $10.4 million, or 75.2% of net revenue, from $19.2 million, or 47.9% of net revenue in FY 2019. SG&A expenses included $1.7 million of charges related to the U.S. Partner Bankruptcies. Excluding these items, SG&A during the period decreased by 55.1%.

- Adjusted Net Loss (a non-IFRS measure) improved to $4.5 million from an Adjusted Net Loss of $6.3 million.

- Adjusted EBITDA Loss (a non-IFRS measure) improved to a loss of $3.3 million from an Adjusted EBITDA Loss of $4.7 million.

- Free Cash Flow (a non-IFRS measure) was ($1.4) million, an improvement of 73.5% as compared to negative Free Cash Flow of ($5.3) million.

Strategic Accomplishments in FY 2020

In the midst COVID-19, we achieved the following key strategic and operating accomplishments:

- We recapitalized for growth;

- We strategically repositioned to a digital-first business model, with key investments made in e-commerce talent and infrastructure;

- We grew our e-commerce revenue by 56% in Q4 2020;

- We grew our website revenue (which was 68% of e-commerce revenue) by 59% in Q4 2020;

- We delivered a gross margin of 31.3% in FY 2020, exceeding the level in FY 2019, which was a record year and

- We generated negative Free Cash Flow of only ($0.6) million in Q4 2020, despite a drop in total revenue of $11.0 million, which was a 77% decrease from Q4 2019.

Outlook

While the effects of the pandemic are still present, there are encouraging early signs pointing to a more active second half of business activity.

On February 17, 2021, we reported that for the first six-weeks of the first quarter of 2021, the Company expected e-commerce net revenue growth of 65%. We have since revised that estimate to include the first quarter of 2021 and believe that e-commerce net revenue for the first quarter of 2021 will exceed prior year levels by at least 75%.

We are cautiously optimistic about the second half prospects for our retail activities in 2021. We are beginning to see momentum in new wholesale orders, and we anticipate having our stores back in operation in time for the spring/summer season.

Summary of Factors Affecting Results from Operations

Since the outbreak of COVID-19 and the resulting emergency measures put in place by federal, provincial, state and local governments across North America, we have seen, and expect to continue to see, a direct, material adverse impact to many of the factors affecting our performance. The extent of the impact of such emergency measures, will depend on future developments, including the duration of COVID-19, which are uncertain and cannot be predicted.

We generally believe that our performance and future success depends on a number of factors that present significant opportunities for us. These factors are also subject to a number of inherent risks and challenges, some of which are discussed below. These factors should be read in conjunction with risk factors highlighted in the "Risk Factors" section of this MD&A and in our Annual Information Form ("AIF"), 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

We source and authenticate branded pre-owned luxury products that we resell directly to consumers online and through our other sales channels and those of our retail partners. We believe that growing customer awareness and trust in our branded product offering has been important to our 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 our ongoing success. If we fail to provide our customers with the service and experience they expect, or experience complaints or negative publicity about our products, services, delivery times or customer support, whether justified or not, the value of our brand would be harmed and our business may suffer, which may adversely affect our business and financial results.

Product Mix and Merchandising Strategy

We believe that our ability to determine the mix of luxury brands and products to offer our addressable market is a key driver of revenue growth and market differentiation. Generally, we formulate our merchandising strategy by analyzing a variety of indicators including, but not limited to, general demographic and market data, and our own proprietary data and history, which includes product and location-specific sales data, e-commerce consumption patterns and data provided by our retail and wholesale partners. Our merchandising strategy is a dynamic process and is designed to provide an attractive value proposition to our targeted consumer segments, with the objective of providing consumers with the right products, at the affordable prices, across all market channels. Our continued success will depend on, among other factors, our continued ability to properly assess demand in our target markets and to continue to implement a disciplined merchandise planning and sourcing strategy that allows us to maintain optimal inventory levels, relevant product assortment and competitive pricing. While we attempt to source goods that complement our existing inventory, we cannot ensure we will do so successfully. To the extent we do not accurately predict and successfully respond to the evolving preferences of our customers, our ability to grow and our business and financial results would be adversely affected.

Sourcing and Authentication

We source and purchase merchandise from third party channels located in Asia and North America and, to a lesser extent, from individual consumers. It is our intention, over time, to increase the amount of product we source directly from individual consumers. Our sourcing and authentication model, which is one of our core competencies, is premised on our owning predominantly all the merchandise we hold for resale. As such, we actively manage direct sourcing relationships with reliable independent third-party suppliers which, over time, have provided us with the flexibility to execute our merchandising (and authentication) strategies by providing us with authenticated products at scale and at competitive cost. Disruptions in our current or planned sources of product supply could and will affect our ability to effectively satisfy market demand and achieve our revenue growth objectives. Further, there can be no guarantee that we can successfully diversify our sourcing by increasing the proportion we purchase directly from North America and/or individual consumers.

In addition to authentication guarantees provided by suppliers, we maintain our own rigorous internal authentication processes and procedures whereby all sourced products are inspected by our trained product experts before we take possession. As authenticity is a cornerstone of the resale industry, any loss of trust in the authenticity of our products could adversely affect our brand appeal and our overall business and financial results. There can be no guarantee that as we grow, we can continue to maintain uncompromising standards in product authentication and provide an authenticity guarantee on all product sales. As the sophistication of counterfeiters increases, we cannot be certain that we will identify every counterfeit item that is consigned to us and it may be increasingly difficult to identify counterfeit products. While we refund the cost of a product to a customer if the customer questions its authenticity and returns the item, any material failure or perceived failure in our authentication operations could cause a loss of confidence in our platform and adversely affect our revenue.

E-Commerce

Our e-commerce channel is now the primary focus of our growth strategy. In executing our business mission, our digital-first strategy will play a vital role by ensuring that digital consumers can purchase our products either directly, through our branded website, or indirectly by our powering the e-commerce platforms of our key channel partners. Since September 2019, and throughout the COVID-19 pandemic in 2020, which brought about rapid consumer adoption of e-commerce and a substantial deterioration in our bricks-and mortar channels, we have invested aggressively in building our e-commerce infrastructure. Over this period, our e-commerce team has more than doubled in size and we have since onboarded new e-commerce partners. We anticipate that as we scale our digital activity, a growing proprietary and partner e-commerce network will provide us with new opportunities for growth, including a deeper understanding of consumer behaviour and the ability to reach more consumers.

In attracting new digital customers, we rely on digital advertising, including search engine marketing to promote awareness of our website. In particular, we rely on search engines and social media platforms as important marketing channels. If search engines and social media platform operators modify their algorithms, terms of service, costs of service or if competition increases for ads, we may be unable to cost-effectively acquire new customers to our website, which would adversely affect our growth strategy and harm our business, and financial results.

Retail Network

Our digital-first omni-channel strategy is also supported by retail shop-in-shop experience centers and by wholesale activities with select retail partners across North America. Despite the move to a digital-first approach, we do believe that being present, selectively, within department stores that target and value customers with an affinity for pre-owned luxury products, can create an enhanced buying experience for our omni-channel customers. While there are no immediate plans to do so, we may expand our retail network opportunistically and selectively across Canada and the United States. Our desire and ability to successfully expand will depend on numerous factors, including funding, individual new store profitability, securing profitable new partnerships, and expanding existing partnerships in key targeted geographies that are complementary to our e-commerce activity. Currently, we operate ten stores with one retail partner, of which only three are in operation due to COVID-19 restrictions. The success of our current retail activities is contingent on the continued viability of this one partner, especially in a prolonged COVID-19 environment.

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

	For the three-month periods ended December 31,		For the years ended December 31,	
	2020	**2019**	**2020**	**2019**
Number of stores, beginning of period	11	81	80	86
Store openings	-	-	-	5
Store closures	1	1	70	11
Number of stores, end of period	10*	80	10*	80

* *Three out of ten stores were open as at December 31, 2020 due to COVID-19.*

General Economic Conditions and Consumer Spending

Our revenue is affected by general economic conditions and consumer spending, which are affected by many factors that are beyond our 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 such as the COVID-19 pandemic. In addition to potentially causing a material interruption in our business operations, the occurrence of any such events in any of any of the areas in which we, our customers or our 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 and will negatively impact the demand for our products which in turn could have a material adverse effect on our business, financial condition, results of operations and cash flows.

Consumer Trends

Demand for pre-owned luxury handbags and accessories is subject to shifts in general consumer trends and preferences and consumer spending. Our revenue and operating results depend on our ability to respond to such changes in a timely manner. We believe that, in the short-term, our diversified brand and product offering provides us with flexibility to optimize our offering as required to address any changes in consumer demand and market trends. In addition, the iconic classic nature of the underlying luxury brands offered by us also provides a stable source of products that are less prone to be affected by short-term fashion trends. In the medium-term, our business and operating results are also impacted by discretionary spending by consumers within the luxury goods segment. Some of the factors that may reduce luxury spending that are beyond our control include, but are not limited to, general economic conditions, consumer disposable income levels, consumer confidence levels, consumer debt, the cost of basic necessities and other goods and the effects of weather or natural disasters. Such economic uncertainty and the resulting decrease in the rate of new luxury goods purchases in the primary market may have a corresponding impact on luxury resale, which could have an adverse effect on our business and operating results.

Seasonality

Generally, our business is seasonal, with a higher proportion of net revenue and operating cash flows generated during the fourth quarter of the fiscal year, which includes the holiday seasons. We also have higher working capital requirements in the periods preceding the launch of certain holidays as we receive and pay for new inventory. We manage our working capital needs through cash flow from operations and our line of credit facility.

Our business in fiscal 2020, exhibited a different profile than in previous years. The exceptional circumstances brought about by COVID-19 significantly decreased our net revenue in the second quarter, at the start of the pandemic, and in the fourth quarter, which was adversely affected by the U.S. Partner Bankruptcies and by pandemic-related lockdown measures instituted across Canada. While it is hard to predict the impact on fiscal 2021, it is our view that a more traditional seasonality profile will emerge post COVID-19.

The average quarterly net revenue as a percentage of annual revenue for fiscal years 2020 and 2019 was the following:

	2020	**2019**
First fiscal quarter……………………………………	44%	21%
Second fiscal quarter	10%	21%
Third fiscal quarter	21%	21%
Fourth fiscal quarter	25%	37%
Yearly total	100%	100%

Weather

Extreme weather conditions in areas where our retail stores and wholesale channel partner 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 customers to travel to our or our retail partners' and thereby reduce our revenue and profitability in any given period. This risk, while potentially mitigated by our customers' ability to purchase our products through our and our partner websites, is nonetheless dependent on our ability to ship goods in a cost-effective and timely manner.

Competition

We operate in the highly competitive North American luxury resale market. We compete with vendors of new and pre-owned luxury goods. Several of our resale market competitors are significantly more capitalized, have greater online brand recognition and technical capabilities, faster or lower-cost shipping, larger selections of goods for sale, greater financial, marketing, institutional and other resources and larger customer bases than we do. We compete on the basis of several key factors including: the attractiveness and quality of our products and brands; our product to value relationship as compared to both the competition's product offering and in relation to original primary goods; our ability to source unique quality products more consistently and with scale; the effectiveness of our omni-channel sales network; our unconditional guarantee of authenticity; the strength of our retail and wholesale partner relationships; our providing exceptional customer service; and on our market positioning within the growing market for pre-owned products. As the market evolves, new competitors may emerge, including traditional retail competitors who expand their offerings to include resale. These competitors may also adopt more aggressive pricing policies, which may negatively impact on our financial performance. If we fail to respond to competition effectively, our business and operating results may be adversely affected.

Foreign Exchange

We report our financial results in Canadian dollars. In fiscal 2020, the majority of our net revenue was derived in U.S. dollars while the majority of our cost of goods sold was denominated in Japanese yen. 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 our revenue, gross profit margins and overall operating results. At present, we do not rely on any hedging strategies to mitigate the risks associated with adverse currency fluctuations in either the U.S. dollar or the Japanese yen.

How Management Assesses the Performance of LXRandCo

In assessing the performance of our business, we consider a variety of financial and operating measures that affect our operating results. We conduct our business activities in a single industry segment as an omni-channel retailer in the North American luxury resale market. As our mission is to serve our customers across any and all platforms of their choosing, this single operating segment includes all sales channels accessed by them, including sales made online through our website, our partners' websites, our retail network and our wholesale operations.

Net Revenue

Net revenue reflects the sale of merchandise, net of any discounts, rebates, an estimated allowance for sales 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 at the date control has been deemed to have been transferred to the customer (typically when merchandise is delivered to and received by the customer), and is measured at the fair value of consideration received, net of discounts and an estimated allowance for returns.

Gross Profit

Gross profit reflects net revenue less cost of sales. Cost of sales includes inventory and product-related costs, production costs, logistics costs and import duties. Cost of sales pertaining to retail stores also includes retail partner licensing costs and credit card processing fees. Our cost of sales may include different items compared to that of other competitors. Gross profit margin is impacted by the components of cost of goods sold, product and channel mix and markdowns. We define gross profit margin as our gross profit divided by our net revenue.

Selling, General and Administrative ("SG&A") Expenses

SG&A expenses consist of selling expenses, including digital marketing costs, 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 in future. Our SG&A expenses may include different expenses compared to that of our competitors and may not be entirely comparable.

Adjusted Net Income or Net Loss

Adjusted Net Income or Adjusted Net Loss, as the case may be, is a non-IFRS measure that we believe is a useful measure of our 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 expenses. Management uses Adjusted Net Income (or 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 our underlying business. In fiscal 2020, Adjusted Net Loss is reconciled to Net Loss, its nearest IFRS measure (see page 13), for expenses that we consider to be not representative of our ongoing operating performance, net of any related tax effects.

EBITDA

We define EBITDA, a non-IFRS measure, as net income or net loss, as the case may be, before amortization and depreciation expenses, finance costs and income tax expense.

Adjusted EBITDA

Adjusted EBITDA is a non-IFRS measure that we believe 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 expenses. We rely on Adjusted EBITDA to facilitate a comparison of our operating performance on a consistent basis from period to period and to provide for a more complete understanding of the factors and trends affecting our business. For fiscal 2020, Adjusted EBITDA is reconciled to Net Loss, its nearest IFRS measure (see page 13) for expenses that we consider to be not representative of our ongoing operating performance. Because Adjusted EBITDA excludes non-cash items, we believe that it is less susceptible to variances in actual performance resulting from depreciation, amortization and other non-cash charges.

Free Cash Flow

Free cash flow is a non-IFRS measure we consider to be an important metric because it is an indicator of how much cash is available for debt repayment, share repurchases, re-investment in the Company and other financing activities. Our sustained ability to generate free cash flow is an indicator of the financial strength of our business. We define free cash flow as net cash generated from operating activities less net cash used in investing activities.

Key Financial and Operating Information

The following table summarizes our recent results of operations for the periods indicated. The selected consolidated financial information set out below has been derived from our audited annual consolidated financial statements and related notes. The selected consolidated financial information set out below for Q4 2020 and Q4 2019 is unaudited.

LXRandCo, Inc.
Consolidated statements of loss and comprehensive loss
(in Canadian dollars)

	For the three-month periods ended December 31,		For the years ended December 31,	
	2020	2019	**2020**	2019
Net revenue	**3,391,813**	14,440,173	**13,777,419**	40,069,288
Cost of sales	**2,283,756**	9,710,949	**9,466,577**	27,694,255
Gross profit	**1,108,057**	**4,729,225**	**4,310,842**	**12,375,033**
Operating expenses				
Selling, general and administrative expenses	**2,230,635**	5,777,456	**10,359,037**	19,212,602
Amortization and depreciation expenses	**89,352**	331,962	**622,151**	1,094,133
Results from operating activities	**(1,211,930)**	**(1,380,194)**	**(6,670,346)**	**(7,931,702)**
Other income and expenses				
Finance costs	**150,480**	133,120	**606,858**	485,164
Foreign exchange loss	**907,549**	459,467	**431,567**	1,467,716
Loss on investment in preferred shares	**—**	112,683	**—**	112,682
Loss before income taxes	**(2,269,959)**	**(2,085,464)**	**(7,708,771)**	**(9,997,264)**
Income tax expense (recovery)				
Current	**(61,341)**	(16,841)	**1,734**	37,516
	(61,341)	(16,841)	**1,734**	**37,516**
Net loss from continuing operations	**(2,208,618)**	**(2,068,623)**	**(7,710,505)**	**(10,034,780)**
Net loss from discontinued operations	**—**	**(382,846)**	**—**	**(382,846)**
Net loss	**(2,208,618)**	**(2,451,469)**	**(7,710,505)**	**(10,417,626)**

	For the three-month periods ended December 31,		For the years ended December 31,	
	2020	**2019**	**2020**	**2019**
Reconciliation of Net Loss to Adjusted Net Loss				
Net Loss	**(2,208,618)**	(2,451,469)	**(7,710,505)**	(10,417,626)
Adjustments to Net Income:				
Foreign exchange loss	**907,549**	459,468	**431,567**	1,467,716
Write-off of property and equipment	**(33,442)**	—	**1,049,930**	—
Write-off of the right of use liability	**—**	—	**(40,077)**	—
Stock-Based Compensation Expense	**441,832**	394,391	**1,018,483**	572,620
Loss on disposition of subsidiaries	**—**	112,682	**—**	112,682
Loss (Gain) on disposals of property and equipment	**—**	555,129	**(282)**	983,027
Loss due to bad debt from U.S. bankruptcy filings	**6,100**	—	**703,725**	—
Professional fees related to strategic review and private placement	**—**	—	**—**	474,853
Store closing costs (recovery)	**(112)**	24,770	**11,856**	130,714
Loss from discontinued operations	**—**	382,486	**—**	382,846
Adjusted Net Loss	**(886,691)**	**(522,183)**	**(4,535,303)**	**(6,293,168)**

	For the three-month periods ended December 31,		For the years ended December 31,	
	2020	**2019**	**2020**	**2019**
Reconciliation of net loss to Adjusted EBITDA				
Net Loss	**(2,208,618)**	(2,451,469)	**(7,710,505)**	(10,417,626)
Add: Amortization and depreciation expense	**89,352**	331,962	**622,151**	1,094,133
Add: Finance costs	**150,480**	133,120	**606,858**	485,164
Add: Income tax expense/(recovery)	**(61,341)**	(16,841)	**1,734**	37,516
EBITDA	**(2,030,127)**	**(2,003,228)**	**(6,479,762)**	**(8,800,813)**
Adjustments to EBITDA:				
Foreign exchange loss	**907,549**	459,468	**431,567**	1,467,716
Loss (gain) on disposals of property and equipment	**—**	555,129	**(282)**	983,027
Write-off of property and equipment	**(33,442)**	—	**1,049,930**	—
Write-off of the right of use liability	**—**	—	**(40,077)**	—
Loss due to bad debt from U.S. bankruptcy filings	**6,100**	—	**703,725**	—
Loss on disposition of subsidiaries	**—**	112,682	**—**	112,682
Stock-based compensation expense	**441,832**	394,391	**1,018,483**	572,620
Professional fees related to strategic review and private placement	**—**	—	**—**	474,853
Store (recovery) closing costs	**(112)**	24,770	**11,856**	130,174
Loss from discontinued operations	**—**	382,846	**—**	382,846
Adjusted EBITDA	**(708,200)**	**(73,942)**	**(3,304,560)**	**(4,676,355)**

Results of Operations

Comparison of Q4 2020 and Q4 2019

The following section provides an overview of our financial performance during Q4 2020 compared to Q4 2019.

Net Revenue

Due to the adverse impact of COVID-19, which affected our retail store and wholesale channel activities, and the resulting U.S. Partner Bankruptcies, our total net revenue mix changed materially in Q4 2020.

For the three-month period ended December 31, 2020, total net revenue decreased by 76.5% to $3.4 million from $14.4 million in Q4 2019. During this period, approximately 50.6% of our total net revenue was generated from e-commerce and 49.4% from retail activities (i.e. stores and wholesale channels combined), as compared to 8.1% and 91.9%, respectively, in Q4 2019. During this period, approximately 70% of our net revenue was generated in the U.S., with the balance coming from Canada, as compared to 90% from the U.S. in Q4 2019. This shift in revenue mix was due to the geographic impact of the U.S. Partner Bankruptcies, which reduced our U.S. business in Q4 2020 and the growth in e-commerce revenue as compared to Q4 2019.

Excluding the impact of the U.S. Partner Bankruptcies, total net revenue in Q4 2020 decreased by 33.7% versus Q4 2019.

E-commerce

E-commerce net revenue as a percentage of total net revenue increased to 50.6% versus 8.1% in Q4 2019. E-commerce net revenue during Q4 2020 was $1.7 million, an increase of 45.9% 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. Excluding the impact of the U.S. Partner Bankruptcies, e-commerce net revenue in Q4 2020 increased by 55.6% versus Q4 2019.

E-commerce AOV during the period was $892, an increase of 10.3% versus the comparable period last year.

LXRCO.com net revenue, which represented 68.0% of e-commerce net revenue, was $1.2 million in Q4 2020, an increase of 58.8% versus last year. This increase was due in part to a shift in consumer buying patterns from traditional brick-and-mortar channels to online, and as a result of infrastructure investments in both e-commerce talent and digital marketing spend to position LXRCO.com for above-average growth.

Retail

For the three-month period ended December 31, 2020, retail net revenue (which includes net revenue from stores and wholesale channels) decreased 87.4% to $1.7 million as compared to $13.3 million in Q4 2019. The decrease reflects the lingering adverse economic impact of COVID-19 on our retail activities, as well as the material permanent impact from store closures relating to the U.S. Partner Bankruptcies. As at December 31, 2020, our retail store network consisted of ten stores of which only three were open due to closures resulting from the COVID-19 pandemic compared to 80 stores open as at December 31, 2019. During Q4 2020, we did not open any stores and closed one store (similar in Q4 2019).

Discontinued Net Revenue from U.S. Partner Bankruptcies

In contrast with Q4 2019, where the revenue generated was quite substantial, we generated no revenue from partners affected by the U.S. Partner Bankruptcies in Q4 2020 (2019—$9.3 million total net revenue, and $0.1 million e-commerce revenue). As these partners have permanently ceased their operations, we plan to replace their revenue over time through a combination of increased e-commerce activity and the addition of other retail and/or wholesale channel partners.

To facilitate greater comparability, the financial table "Revenue by Channel (Excluding Impact of the U.S. Partner Bankruptcies)" provided below sets forth the net revenue by channel excluding the impact of the U.S. Partner Bankruptcies.

Revenue by Channel (Excluding Impact of the U.S. Partner Bankruptcies)

	Three months ended December 31			Twelve months ended December 31		
($000s)	2020	2019	Increase/ (Decrease)	2020	2019	Increase/ (Decrease)
Total net revenue	$3,391,813	$14,440,173	(76.5%)	$13,777,419	$40,069,288	(65.6%)
Less: Revenue from U.S. Bankrupt Partners	–	$9,316,661	n/a	$6,077,296	$27,697,456	(78.1%)
Adjusted Total net revenue	$3,391,813	$5,123,512	(33.7%)	$7,700,123	$12,371,832	(37.8%)
E-commerce net revenue	$1,715,804	$1,175,652	45.9%	$4,379,723	$3,724,488	17.6%
Less: Revenue from U.S. Bankrupt Partners	–	$72,940	n/a	$204,244	$286,355	(28.7%)
Adjusted e-commerce net revenue	$1,715,804	$1,102,712	55.6%	$4,175,479	$3,438,133	21.4%

Gross Profit and Gross Margin

Gross profit in Q4 2020 decreased by 76.6% to $1.1 million as compared to $4.7 million in Q4 2019. The decrease in gross profit is attributable to the decline in total net revenue discussed above, which decreased by 76.5%.

Gross profit margin in Q4 2020, however, was 32.7% compared to 32.8% in Q4 2019. Despite the significant cost pressures brought about from the pandemic on our operations, the gross profit margin remained stable with the level achieved in prior quarter, which was a record quarter for the Company.

SG&A Expenses

Given the significant loss in net revenue from the pandemic, where possible, we have been proactive in reducing SG&A costs and in restructuring operations. In Q4 2020, SG&A expenses decreased by 61.4% to $2.2 million, compared to $5.8 million in Q4 2019. This decrease was primarily due to a materially-reduced retail store network, the partial furloughing of store employees and the furloughing and/or reduced work hour arrangements with most of our head office staff, all as a result of the COVID-19 pandemic. On December 31, 2020, we employed 42 people across our ten retail stores, and our two office locations in Montreal, Canada and Tokyo, Japan. At the end of Q4 2019, our employee headcount was 164 (or 294 people, if retail partner employees under our direct supervision (and on our payroll) are included). This decrease in headcount is mainly the result of a streamlined retail salesforce resulting from store closures, the U.S Partner Bankruptcies and other terminations.

Net Loss

In Q4 2020, the Company's net loss improved to $2.2 million from a reported net loss of $2.5 million in Q4 2019. This was primarily due to decreased SG&A costs and a decrease in amortization and depreciation expense in the period as compared to Q4 2019.

Adjusted Net Loss

In Q4 2020, Adjusted Net Loss increased to $0.9 million as compared to an Adjusted Net Loss of $0.5 million in Q4 2019. This increase was primarily due to lower adjustments pertaining to the: write-off of property and equipment; losses from discontinued operations; and losses on disposition of subsidiaries, all expenses incurred in Q4 2019 but not materially present in 2020. The financial table on page 14 sets forth the reconciliation of Net Loss to Adjusted Net Loss.

Adjusted EBITDA

In Q4 2020, Adjusted EBITDA loss increased to $0.7 million as compared to an Adjusted EBITDA loss of $0.1 million in Q4 2019. This increase was primarily due to lower adjustments pertaining to amortization and depreciation expense, the write-off of property and equipment, losses from discontinued operations and losses on disposition of subsidiaries; all losses incurred in Q4 2019 but not present in 2020. The financial table on page 14 sets forth the reconciliation of Net Loss to Adjusted EBITDA.

Free Cash Flow

In Q4 2020, Free Cash Flow decreased to a deficit of ($0.6) million as compared to positive Free Cash Flow of $0.8 million in Q4 2019. The financial table under "Selected Quarterly Financial Information" on page 20 sets forth the computation of Free Cash Flow.

Comparison of FY 2020 and FY 2019

The following section provides an overview of our financial performance during FY 2020 compared to FY 2019.

Net Revenue

Due to the adverse impact of COVID-19, which affected our retail store and wholesale channel activities, and the resulting U.S. Partner Bankruptcies, total net revenue in FY 2020 decreased by 65.6% to $13.8 million from $40.1 million. During the year, approximately 31.8% of total net revenue was generated from e-commerce and 68.2% from retail activities (i.e. stores and wholesale channels combined), as compared to 9.3% and 90.7% in FY 2019. Also, during this period, approximately 80.7% of our net revenue was generated in the U.S., with the balance coming from Canada, as compared to 90.0% coming from the U.S. in FY 2019. This shift in revenue mix is due to the geographic impact of the U.S. Partner Bankruptcies, which reduced our U.S. business in FY 2020 and the growth in e-commerce revenue as compared to FY 2019.

Excluding the impact of the U.S. Partner Bankruptcies, total net revenue in FY 2020 decreased by 37.8% versus FY 2019.

E-commerce

E-commerce net revenue as a percentage of total net revenue increased to 31.8% versus 9.3% in FY 2019. E-commerce net revenue in FY 2020 was $4.4 million, an increase of 17.6% versus the prior year. Included in e-commerce net revenue is online revenue from retail partners affected by the U.S. Partner Bankruptcies, which given the impact of COVID-19, performed at a much lower rate than that of last year. Excluding the impact of the U.S. Partner Bankruptcies, e-commerce net revenue in FY 2020 increased by 21.4% versus FY 2019. E-commerce AOV during the period was $876 an increase of 11.6% versus the comparable period last year.

LXRCO.com net revenue, which represented 68.0% of e-commerce net revenue, was $3.0 million in FY 2020, an increase of 52.9% versus last year. During the year, we made several infrastructure investments in e-commerce platform upgrades, e-commerce talent hires, and increased digital marketing spend to position LXRCO.com for above-average growth.

Retail

In FY 2020, retail net revenue (which includes net revenue from stores and wholesale channels) decreased by 74.1% to $9.4 million as compared to $36.3 million in FY 2019. The decrease in total net revenue primarily reflects the lingering adverse impact of COVID-19 on our retail activities, as well as the significant impact from store closures relating to the U.S. Partner Bankruptcies. As at December 31, 2020, our retail network consisted of ten stores of which only three were open due to closures resulting from the COVID-19 pandemic, compared to 80 stores open as at December 31, 2019. During FY 2020, we permanently closed 70 stores, compared to eleven for all of FY 2019. These store closures were necessitated by the adverse impact of COVID-19 and the resulting U.S. Partner Bankruptcies announced in FY 2020.

Discontinued Net Revenue from U.S. Partner Bankruptcies

In FY 2020, approximately $6.1 million, or 44.1%, of our total net revenue and approximately $0.2 million, or 4.7% of our e-commerce net revenue was attributable to our long-standing partners affected by the U.S. Partner Bankruptcies (2019—$27.7 million, and $0.3 million, respectively). As discussed above, these partners have ceased their operations. To facilitate greater comparability, the financial table “Revenue by Channel (Excluding Impact of the U.S. Partner Bankruptcies)” provided on page 17 sets forth the net revenue by channel excluding the impact of the U.S. Partner Bankruptcies.

Gross Profit and Gross Margin

Gross profit in FY 2020 decreased by 65.2% to $4.3 million as compared to $12.4 million in FY 2019. The decrease in gross profit is primarily attributable to the decline in total net revenue discussed above, which decreased by 65.6%.

Gross profit margin in FY 2020 was 31.3% compared to 30.9% in FY 2019. Despite the uncertainty from the pandemic on our operations, due in part to the cost reduction plan put in place by the Company, the gross profit margin in 2020 exceeded the level achieved in the prior year, which was a record year for the Company.

SG&A Expenses

Given the significant loss in net revenue from the pandemic, where possible, we have been proactive in reducing SG&A costs and in restructuring operations. In FY 2020, SG&A expenses decreased by 46.1% to $10.4 million, compared to $19.2 million in FY 2019. This decrease was primarily due to a materially-reduced retail store network, the partial furloughing of store employees and the furloughing and/or reduced work hour arrangements with most of our head office staff offset by $0.4 million payroll subsidies received under the Federal Government’s Canadian Emergency Wage Subsidy program, all as a result of the COVID-19 pandemic.

Despite these reductions, SG&A expense during the year was adversely impacted by $1.7 million in charges relating to the U.S. Partner Bankruptcies, which included $0.7 million attributable to bad debt expenses and other expenses of $1.0 million from to the write-down of store fixtures and dislocation costs related to store closures. Excluding these items, SG&A during the period would have decreased by 55.1%.

On December 31, 2020, we employed 42 people across our ten retail stores, and our two office locations in Montreal, Canada and Tokyo, Japan. At the end of Q4 2019, our employee headcount was 164 (or 294 people, if retail partner employees under our direct supervision (and on our payroll) are included). 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 FY 2020, the Company's net loss improved by 26.0% to $7.7 million from a net loss of $10.4 million in the FY 2019.

Adjusted Net Loss

In FY 2020, Adjusted Net Loss improved by 27.9% to $4.5 million as compared to an Adjusted Net Loss of $6.3 million in the FY 2019. The financial table on page 14 sets forth the reconciliation of Net Loss to Adjusted Net Loss.

Adjusted EBITDA

In Q4 2020, Adjusted EBITDA improved by 29.3% to a loss of $3.3 million as compared to an Adjusted EBITDA loss of $4.7 million in FY 2019. The financial table on page 14 sets forth the reconciliation of Net Loss to Adjusted EBITDA.

Free Cash Flow

In FY 2020, Free Cash Flow increased to a deficit of ($1.5) million as compared to negative Free Cash Flow of ($5.3) million in FY 2019. The financial table under "Selected Quarterly Financial Information" on page 20 sets forth the computation of Free Cash Flow.

Selected Quarterly Financial Information

The following table summarizes certain of our financial results for the most recently completed eight quarters for which financial statements have been prepared by us as a reporting issuer. This unaudited quarterly information has been prepared in accordance with IFRS. Due to our recent change in strategy, the impact of COVID-19 and other factors such as seasonality, the results of operations for any quarter are not necessarily indicative of the results of operations for the full year.

($)	**FY 2020**				**FY 2019**			
Consolidated statements of loss	**Q4**	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**
Total net revenue	3,391,813	2,857,718	1,430,284	6,097,604	14,440,173	8,314,615	8,558,435	8,756,063
E-commerce revenue	1,715,804	885,669	802,658	975,592	1,175,652	985,288	959,525	604,023
E-commerce revenue % of total net revenue	50.60%	31.00%	56.10%	16.00%	8.10%	11.90%	11.20%	6.90%
Gross margin	32.7%	28.2%	33.6%	31.4%	32.8%	31.4%	33.4%	24.9%
Adjusted Net Loss	-886,691	-1,156,584	-934,116	-1,967,708	-522,182	-1,790,769	-1,596,709	-2,584,344
Adjusted EBITDA	-708,200	-782,262	-643,919	-1,579,975	-73,941	-1,404,384	-1,186,171	-2,212,694
Adjusted EBITDA % of total net revenue	-20.9%	-27.4%	-45.0%	-25.9%	-0.5%	-16.9%	-13.9%	-25.3%
Run rate metrics and growth:								
Total net revenue – last 12 months revenue run-rate	13,777,419	24,825,779	30,282,676	37,410,827	40,069,286	36,493,740	38,254,627	38,982,959
E-commerce revenue – last 12 months revenue run-rate	4,379,723	3,839,571	3,939,190	4,096,057	3,724,488	3,057,856	2,654,334	2,294,094
E-commerce revenue – period over period growth	45.9%	-10.1%	-16.3%	61.5%	131.0%	69.4%	60.1%	-18.2%
Free Cash Flow:								
Net loss	-2,208,618	-2,786,350	-1,741,391	-974,146	-1,685,777	-2,310,792	-2,178,660	-3,859,556
Add: non-cash items	97,883	1,128,770	23,573	642,166	976,914	1,092,204	398,334	297,817
Add: Net change in non-cash working capital	1,475,699	1,712,028	994,985	177,852	1,525,191	-1,527,515	-557,302	2,514,331
Cash flows provided/(used) in operating activities	-635,036	54,448	-722,833	-154,128	816,328	-2,746,103	-2,337,628	-1,047,408
Less: acquisition of property and equipment	-4,171	-	-	-1,337	-6,770	2,204	-3,085	-13,002
Free Cash Flow	-639,207	54,448	-722,833	-155,465	809,558	-2,743,899	-2,340,713	-1,060,410
Liquidity:								
Cash availability	7,289,957	501,033	797,777	1,393,351	3,498,824	2,004,827	3,528,437	5,126,105
Working capital	8,949,997	2,877,864	4,523,360	-584,103	1,332,673	9,125,764	9,373,667	10,037,224
Capitalization:								
Shares outstanding	92,783,155	32,783,145	32,783,145	28,176,012	28,176,012	28,176,012	28,176,012	28,176,012
Closing share price	0.245	0.200	0.250	0.280	0.205	0.220	0.285	0.380
Market capitalization	22,731,873	6,556,629	8,195,786	7,889,283	5,776,082	6,198,723	8,030,163	10,706,885
Add: Total debt	5,733,129	5,173,259	5,438,870	6,009,844	8,044,331	7,078,735	5,860,611	5,041,377
Less: Cash	7,289,957	501,033	797,777	1,393,351	3,498,824	2,004,827	3,528,437	5,126,105
Enterprise value (EV)	21,175,045	11,228,855	12,836,879	12,505,776	10,321,589	11,272,631	10,362,337	10,622,157
Multiple of EV/Last 12 months revenue	1.54x	0.45x	0.42x	0.33x	0.26x	0.31x	0.27x	0.27x

Liquidity and Capital Resources

Overview

Our primary uses of funds are for the funding of operating expenses, working capital (primarily the purchase of merchandise inventory) and debt service requirements. Our ability to fund operating expenses, working capital requirements and future debt service requirements will depend on, among other things, our future operating performance, which will be affected by, among other things, general economic, financial and other factors, including factors beyond our control. See "Factors Affecting Results from Operations" and "Risk Factors" sections in this MD&A for additional information. Occasionally, we review acquisition opportunities in the normal course of business and we may in future decide to make select acquisitions to accelerate our business strategy when suitable opportunities arise. Though there can be no guarantee, we expect 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 our credit facility.

Working Capital

Our working capital is comprised of: current assets, which includes cash, accounts receivable, sales taxes receivable, inventory, prepaid expenses and prepaid deposits; and is net of current liabilities, which include accounts payable, accrued liabilities, deferred revenue, sales taxes payable, income tax payable and the current portion of our credit facility. Driven primarily by the purchase of merchandise inventory ahead of major holiday selling periods, and the build-up in accounts receivable during our busy fourth quarter, our working capital needs fluctuate throughout the year. Working capital balances also tend to fluctuate with our financing needs.

On December 31, 2020, we had a working capital surplus of $8.9 million, which was comprised of $12.9 million in current assets offset by $3.9 million in current liabilities. Cash on hand on December 31, 2020 was $7.3 million.

Credit Facilities and Other Indebtedness

The following summarizes the indebtedness incurred by us as at December 31, 2020. This summary should be read in conjunction with the consolidated financial statements of the Company for the year ended December 31, 2020.

Credit Facilities

On June 14, 2017, we 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, we renewed the Line of Credit for an additional three-year term until May 25, 2023. The Line of Credit consists of a revolving credit facility for an authorized amount of up to $12,500,000, subject to a maximum draw based on a borrowing base formula.

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

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

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

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

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

Cash Flows
The following table summarizes our cash flows for the years indicated:

	For the three-month period ended December 31,		**For the year ended December 31,**	
Cash Flow Data:	**2020**	**2019**	**2020**	**2019**
Cash flows provided (used) in operating activities....	$(635,036)	$816,328	($1,449,094)	($5,314,806)
Cash flows provided (used) in investing activities.....	15,626	(13,145)	9,352	(27,028)
Cash flows provided by financing activities	7,433,614	765,380	5,102,222	6,649,509
Cash flows used by discontinued operations……….	-	-	-	(26,413)
Effect of exchange rate changes on cash……………	(25,280)	(74,566)	128,653	(97,598)
Net increase in cash during the year	**6,788,924**	**1,493,997**	**3,791,133**	**1,183,664**
Cash, beginning of year..	501,033	2,004,827	3,498,824	2,315,160
Cash, end of year..	**7,289,957**	**3,498,824**	**7,289,957**	**3,498,824**

Analysis of Cash Flows for FY 2020, compared to FY 2019

In FY 2020, the amount of cash required to fund our operating activities (cash flows used in operating activities) was $1.4 million, compared to $5.3 million in FY 2019, a year-over year improvement of $3.9 million. This decrease in cash utilization was primarily attributable to our implementation of drastic cost reduction measures resulting from the COVID-19 pandemic, the closure of our retail network in March 2020, the furloughing of most of our employees and fixed cost reductions (including terminations).

In FY 2020, due to an absence of capital expenditures related to store openings, cash related to investing activities (cash flows provided/(used) in investing activities) was negligible, a position not dissimilar from that in FY 2019.

In FY 2020, total cash generated by financing activities (cash flows provided by financing activities) was $5.1 million compared to $6.6 million in FY 2019, a net year-over-year decrease in funding of $1.5 million. This decrease was primarily attributable to: (a) a decrease in cash related to a $5.3 million repayment in our Line of Credit in FY 2020 (compared to a net increase in borrowing of $2.3 million in FY 2019); (b) an increase in cash proceeds of $3.0 million from the BCAP Loan in FY 2020; and (c) an increase in cash proceeds of $7.7 million from the equity financing completed in FY 2020 (compared to an equity financing of $4.6 million in FY 2019).

As a result of the above inflows and outflows, in FY 2020 we generated a net increase in cash of $3.8 million, compared to an increase in cash of $1.2 million in FY 2019, which resulted in an ending cash balance on December 31, 2020, of $7.3 million as compared to $3.5 million on December 31, 2019.

Contractual Obligations

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

	Maturing in under 1 year $	**Maturing in 1 to 5 years** $	**Total** $
Accounts payable and accrued liabilities	3,367,959	–	3,367,959
Line of credit	-	2,796,217	2,796,217
Long-term debt	175,000	2,825,000	3,000,000
Other Liabilities (Lease liabilities)	168,900	551,864	720,764
	3,711,859	**6,173,081**	**9,884,940**

As required and in the normal course, the Company manages the risk of failing to discharge its financial liabilities in a timely manner by adjusting its operating requirements and relying on its various financing sources, as needed.

Share Capital

Issued

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

	Number #	**Amount** $
Balance, January 1, 2019	15,676,012	90,202,459
Share issuance, net of issuance cost	12,500,000	4,652,415
Balance, December 31, 2019	28,176,012	94,854,874
Share issuance, net of issuance cost	64,607,143	7,097,858
Balance, December 31, 2020	**92,783,155**	**101,952,732**

On June 4, 2020, concurrent with the closing of the BCAP Loan, and at the request of the Company's lenders, the Company completed a private placement of Class B common shares, whereby the Company issued 4,607,143 Class B common shares at a price of $0.175 per share for gross proceeds of $806,250.

The Company incurred $67,987 of share issuance costs that were recorded as a reduction of the related equity proceeds.

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

Off-balance sheet arrangements

The Company has not entered into any such arrangements at December 31, 2020 and at the date of this MD&A.

Related Party Transactions

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

Compensation of key management personnel

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

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

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, revenues and expenses are discussed below. Information about significant estimates is discussed in note 4 of the consolidated financial statements.

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 TSX is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the TSX and that such information is accumulated and communicated to the Company's management, including the Interim Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding the required disclosure. In designing and evaluating the Company's controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management is required to apply its judgment in evaluating and implementing possible controls and procedures.

The Company's management, under the supervision and with the participation of its Interim Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness of the Company's internal controls over financial reporting as of December 31, 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 December 31, 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:

Previously Identified Material Weaknesses Not Fully Remediated

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

ii. Lack of segregation of duties within accounting functions and systems.

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

iv. Difficulty to retain sufficient internal accounting personnel to prepare and oversee financial statements reporting in accordance with IFRS

    As at December 31, 2019, management concluded that the last material weakness, that was initially identified as of December 31, 2018, was fully remediated after appointing three additional Chartered Professional Accountants ("CPAs") to the financial reporting team, consisting of a finance manager, a financial controller, and a qualified external financial reporting consultant (the latter whose services are called upon on an "as needed" basis), with sufficient knowledge and experience in IFRS. In 2020, the Finance manager role was vacant starting June 2020 and the company was not able to retain the service of a qualified external financial reporting consultant for the preparation of the year end financial statement.

As at December 31, 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 impact of COVID-19 on its operations, the integration of sophisticated information technology systems with access restrictions, segregation of all conflicting duties, and advanced accounting software, may not always be possible and economically feasible. As a result, management has not been able to take all the necessary steps to improve and formalize the Company's internal controls over financial reporting during the year ended December 31, 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 in 2020. However, management has determined that the material weaknesses identified were not fully remediated as of December 31, 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.

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 list 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" in our most recent Annual Information Form, and as described from time to time in the reports and disclosure documents filed by us with the Canadian securities regulatory agencies and commissions.

Risks Related to Our Business and Industry

- *Due to the Impact of COVID-19 there is an elevated risk about the Company's ability to execute its business plan and growth objectives.*

- *Our future growth and profitability will depend on the effectiveness and efficiency of implementing our forecasts, plans, and strategic initiatives.*

- *Our future growth and profitability will depend on having sufficient funds to execute our strategic initiatives.*

- *We currently have a significant dependence on a limited number of retail partners. Our growth strategies depend in part upon our ability to identify new partners (retail, wholesale, and digital) and* *enter into agreements with such partners for opening new stores and digital channels, and to then successfully pursue such opportunities in a timely and cost-effective manner.*

- *We are exposed to credit risk of our retail and wholesale partners. A default by any of our retail and wholesale partners could have a material financial effect on the business, financial condition and results of operation of LXRandCo. There can be no assurance, in such a case, that we would be in a position to arrange for alternate or replacement agreements, transactions or business relationships on terms as favorable as LXRandCo's existing agreements, transactions or business relationships, in a timely fashion.*

- *Parties with whom we do business with may be subject to insolvency risks or may otherwise become unable or unwilling to perform their obligations to LXRandCo.*

- *We currently have a dependence on a concentrated number of third-party suppliers. Our ability to obtain merchandise on a timely basis at competitive costs could suffer as a result of any deterioration or change in our supplier relationships or events that adversely affect our suppliers or cause disruptions in their businesses.*

- *We currently source a modest amount of our products directly from consumers, primarily in North America. While our strategy is to increase the number of products sourced directly from individuals, there are no assurances that we will be able to successfully access this source of product supply in sufficient quantity and quality on desired terms and in a timely manner.*

- *If we lose the services of members of our senior management team or other key personnel, or are unable to attract new executives who possess specialized market knowledge and technical skills, our ability to compete and to manage our operations effectively could be reduced.*

- *Our plan to expand our digital-led omni-channel network may not be successful.*

- *There can be no assurance that we will successfully manage and grow our e-commerce business, as planned, and any failure to do so could have a negative impact on results from operations.*

- *There are risks related to forward-looking information in this AIF.*

- *We may be unable to continue to grow revenue or meet other financial targets, which could cause the price of our Shares to decline.*

- *Our ability to manage our operations at our current size and successfully execute on our growth strategies are subject to numerous risks and uncertainties, and any failure to do so could have a negative impact on the price of our Shares.*

- *We have no record of profit.*

- *We are subject to risks associated with licensing agreements relating to the renting of retail space from retail partners. Any failure to make these license payments when due, or the inability to extend, renew or continue to rent space in key locations from retail partners, would likely harm our business, profitability and results of operations.*

- *We will require capital to fund our expanding business, which may not be available to us on satisfactory terms or at all. While we plan to use cash on hand, cash from operations and capital available under our Debt Facilities to fund our operations and execute our growth strategies, if these amounts are insufficient, we may not meet our growth expectations or we may require additional financing which could adversely affect our financial health, impose covenants that limit our business activities and cause dilution to shareholders.*

- *The terms of our debt facilities do, and any additional debt financing may, restrict our current and future operations, which could in turn adversely affect our ability to manage operations and respond to changes in our business.*

- *Fluctuations in the value of the Canadian dollar in relation to the U.S. dollar, the Japanese Yen and other currencies may impact our operating and financial results and may affect the comparability of our results between financial periods.*

- *General economic conditions in Canada, the United States and other parts of the world, including lower levels of consumer spending, can affect consumer confidence and consumer purchases of discretionary items, including pre-owned branded luxury products.*

- *The success of our business depends on our ability to optimize our merchandise offerings by anticipating and responding in a timely manner to changing consumer demands, tastes and fashion trends across multiple brands, product lines, sales channels and geographies. Our inability to anticipate and respond to these changes could have a material adverse effect on our business, financial condition and results of operations.*

- *Our business depends on a strong brand image, both for the LXRandCo brand and the brands of the products we sell. If we are not able to protect and enhance our brand or if the brand appeal of the products that we sell diminishes, our business will be negatively affected.*

- *Our brand image, reputation and financial performance may be negatively impacted by actions taken by our suppliers.*

- *Trade restrictions in the regions we operate could adversely impact our business, financing condition and results of operations.*

- *We operate in a competitive industry and the size and resources of many of our competitors may allow them to compete more effectively than us, which could adversely impact our growth and market share.*

- *A material disruption in or security breach affecting our information technology systems or e-commerce business could significantly affect our business and lead to reduced revenue, reduced growth prospects and reputational damage.*

- *If we are unable to attract, motivate and retain quality sales staff, we may not be able to maintain a consistently high level of customer service and grow or sustain our operations, and as a result, our brand, business and financial results may be negatively affected.*

- *We are dependent on leasing space in one warehouse facility in the United States which is operated by a third-party warehouse services provider, as well as our multi-purpose Montreal and Tokyo offices which also serve as distribution centers. If the warehouse space or distribution centers become inoperable, capacity is exceeded or if operations are disrupted, our business, financial condition and operating results could be negatively affected.*

- *We rely upon independent third-party transportation providers for substantially all of our merchandise shipments.*

- *Our net revenue and inventory purchases may fluctuate on a seasonal basis, which could adversely affect our business and financial condition.*

- *A failure to reduce operating expenses in a timely manner in response to changes in our business could adversely affect our results of operations.*

- *We are dependent upon our information technology systems. Our inability to implement or enhance our systems could have an adverse impact on our financial results and operations.*

- *We will incur increased expenses as a result of being a public company and our current resources may not be sufficient to fulfill our public company obligations.*

- *Our equity compensation plans may adversely impact our financial results.*

- *We identified material weaknesses in our financial controls which may indicate that there is a possibility that a material misstatement of our annual or interim financial statements would not be prevented or detected on a timely basis.*

- *We may be unable to protect our trademarks or other intellectual property rights, and may be subject to claims that we, or our suppliers, have infringed upon the trademarks or other intellectual property rights of third-parties.*

- *We are subject to numerous laws and regulations that could adversely affect our business.*

- *We have risks related to our restatement of previously filed financial statements and regulatory investigations or litigation relating to such matters.*

- *There are claims made against us from time to time that could result in litigation and that could distract management from its business activities, resulting in significant liability or damage to the LXRandCo brand.*

- *We may be subject to additional taxes, which could affect our operating results.*

- *Some of our directors and executive officers are resident outside of Canada and as such may render it difficult to effect service of process upon such directors, officers and experts within Canada.*

- *We are subject to insurance-related risks.*

- *We are subject to payment-related risks.*

- *Health epidemics or pandemics, natural disasters, unusual weather and geo-political events or acts of terrorism have and could adversely affect our operations and financial results.*

- *Parties with whom we do business with may be subject to insolvency risks or may otherwise become unable or unwilling to perform their obligations to us.*

- *Changes in accounting standards and subjective assumptions, estimates and judgments by management related to complex accounting matters could significantly affect our reported financial results or financial condition.*

- *Transfer pricing rules may adversely affect our corporate income tax expense.*

Risks Related to our Shares

- *The market price for our Shares may be volatile and could decline in value.*

- *Holders of Shares may be subject to dilution resulting from future offerings of Shares.*

- *There can be no assurance that an active market for our Shares will exist.*

- *We do not expect to pay any cash dividends for the foreseeable future.*

- *If securities or industry analysts do not publish research or publish inaccurate or unfavorable research about us or our business, the Share trading price and volume could decline.*

- *Our warrants are exercisable for Shares, which could increase the number of Shares eligible for future resale in the public market and result in dilution.*

- *There is no guarantee that the warrants will ever be in-the-money, and the warrants may expire worthless.*

Current Share Information

As of December 31, 2020, there were an aggregate of 92,783,155 issued and outstanding Class B common shares, and a total of 28,879,250 Class B common share purchase warrants issued and outstanding. As at the date of this MD&A, there have been no changes to the Company's share capital from December 31, 2020.

Additional Information

Additional information relating to the Company, including the Company's AIF, is available on SEDAR at *www.sedar.com*. The Company's Shares are listed for trading on the Toronto Stock Exchange ("TSX") under the symbol "LXR".