LXRandCo Inc.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Fourth Quarter – Three and Twelve-Month Periods Ended December 31, 2018

The following management's discussions and analysis ("MD&A") is prepared as of April 1, 2019 and is intended to assist readers in understanding the financial performance and financial condition 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 notes thereto for the year ended December 31, 2018.

Basis of Presentation

The consolidated financial statements of LXRandCo have been prepared in accordance with International Financial Reporting Standards ("IFRS"). All amounts are presented in Canadian dollars, unless otherwise stated. LXRandCo's fiscal year is ending December 31.

The consolidated financial statements and notes thereto for the year ended December 31, 2018 and this MD&A were approved by the Board of Directors on April 1, 2019.

Non-IFRS Measures

This MD&A makes reference to certain non-IFRS measures. These measures are not recognized measures 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 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 EBITDA Margin" and "Adjusted Net Loss". These non-IFRS measures are used to provide investors with supplemental measures of LXRandCo's operating performance and thus highlight trends in LXRandCo's core business that may not otherwise be apparent when relying solely on IFRS measures. Management also believes that securities analysts, investors and other interested parties frequently use non-IFRS measures in the evaluation of issuers. Management also uses non-IFRS measures in order to facilitate operating performance comparisons from period to period, to prepare annual operating budgets and forecasts and to determine components of management compensation. For a definition of "EBITDA", "Adjusted EBITDA", "Adjusted EBITDA Margin" and "Adjusted Net Loss", and a reconciliation of these non-IFRS measures to IFRS measures, see "How Management Assesses the Performance of LXRandCo" and "Selected Consolidated Financial Information of LXRandCo" sections of this MD&A.

Caution Regarding Forward-Looking Statements

Certain statements in this MD&A are prospective in nature and constitute forward-looking information and/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, new store openings, store productivity, margin improvements, e-Commerce penetration and future acquisitions, as well as other statements with respect to management's beliefs, plans, estimates and intentions, and similar statements concerning anticipated future events, results, outlook, circumstances, performance or expectations that are not historical facts.

Forward-looking statements generally, but not always, can be identified by the use of forward-looking terminology such as “outlook”, “objective”, “may”, “could”, “would”, “will”, “expect”, “intend”, “estimate”, “forecasts”, “project”, “seek”, “anticipate”, “believes”, “should”, “plans” or “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 in North America, entering into new and/or expanded retail partnerships in North America, the Company’s ability to source products, the Company’s competitive position in the vintage luxury industry, and beliefs and intentions regarding the ownership of material trademarks and domain names used in connection with the marketing, distribution and sale of the Company’s products as well as assumptions concerning general economic and market growth rates, currency exchange and interest rates and competitive intensity.

Readers are cautioned not to place undue reliance on forward-looking statements, as there can be no assurance that the future circumstances, outcomes or results anticipated or implied by such forward-looking 3 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 dated April 1, 2019 (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 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 North American omni-channel retailer of branded vintage luxury handbags and accessories. LXRandCo sources and authenticates high quality pre-owned products and sells them through: a retail network of “shop-in-shop” stores located primarily in major department stores in Canada and the United States; wholesale operations primarily in the United States; and its own e-Commerce website, www.lxrco.com, as well as the e-commerce platforms of its retail partners. LXRandCo offers preowned products from iconic brands such as Hermès, Louis Vuitton, Gucci and Chanel, among others, at attractive prices and seeks to appeal to the aspirational lifestyle needs of women of all ages. As at December 31, 2018, LXRandCo’s retail network consisted of 86 stores with 77 in the United States and 9 in Canada. LXRandCo has offices in Montréal, Canada, and Tokyo, Japan.

LXRandCo’s mission is to connect consumers with pre-owned branded luxury handbags and accessories and inspire a new pride in ‘vintage luxury’ by making sought after luxury products accessible to a broader audience.

Management believes that its curated offering of branded pre-owned vintage luxury products addresses a growing demand by aspirational buyers who seek luxury products and accessories that might otherwise be unavailable to them due to price and accessibility. LXRandCo offers an integrated omni-channel buying environment and, authenticated and condition-graded products that are attractively priced compared to new products.

Proof of Concept as a Private Company

LXR was founded in 2010 with a mission to connect consumers with pre-owned branded luxury products and inspire a new pride in 'vintage luxury' by making sought after luxury products accessible to a broader audience. Management believes that its curated offering of branded pre-owned vintage luxury products addresses a growing demand by aspirational buyers who seek luxury products and accessories that might otherwise be unavailable to them due to price and accessibility. In 2013, the Company formally launched its e-commerce business and later that same year launched its first retail presence in Beverly Hills.

Recognizing the opportunity to position itself uniquely in the vintage luxury landscape by establishing a broad physical retail presence, LXRandCo began to expand its store network, transitioning to a capital efficient "shop-in-shop" model under which it partnered with premier mid-tier department store and off-price retailers. LXRandCo offers these retailers a compelling value proposition by offering the world's most coveted brands, to which they would not otherwise have access, at price points that are accessible to their customers. The LXRandCo offering drives increased foot traffic and repeat customers while delivering revenue productivity up to 15 times more than their total store productivity. In 2014 and 2015, the Company established partnerships with a number of department stores and by the end of 2015 had expanded to 15 locations.

By the end of 2016, prior to the Company going public in 2017 LXRandCo had further grown its retail network to 46 stores (32 in the United States, eight in Canada and six in the Germany), and it had a well-established and growing EBITDA business. Total revenue for 2016 had grown to $21.9 million, with a gross profit margin in excess of 30%, and the Company was profitable on an adjusted EBITDA basis.

In 2017, in an effort to satisfy the considerable demand from retail partners for its shop-in-shop locations, the Company embarked on a significantly accelerated growth plan. In June 2017, with the belief that it could grow to 200 stores in North America and across Europe, LXRandCo raised $25 million in gross proceeds through a public offering of shares and became a public traded company on the Toronto Stock Exchange.

Challenges Presented by Aggressive Growth Strategy

In 2017, in response to the significant demand for its product offering, LXRandCo opened 90 stores, all in the second half of the year, essentially tripling the size of the retail network to 131 by year end and substantially expanding its network into Europe, including two new countries. The rapid pace of growth in store count and international expansion placed a significant burden on corporate resources and had a significantly negative impact on gross margin and corporate costs. In the context of a 12-month or more revenue ramp-up period for new stores, along with the launch of some underperforming stores, rapid expansion of the network eroded profitability and resulted in a substantial use of cash from operating activities. Several decisions made by management at the time stressed the Company operationally and financially. More specifically:

1. The Company misjudged its ability to manage growth and to implement an optimal structure and financially sound retail partner arrangements at scale.

2. The overly-accelerated expansion of the physical retail network resulted in a substantially out-sized SG&A and corporate cost structure and an inefficient use of cash to fund operating activities.

3. Several of the geographic locations of new stores were driven by retail partner preferences as opposed to LXR's own strategic and financial rationale.

4. The opening and operation of physical retail stores in Europe came with significantly higher costs than the North American stores, they lacked scale and required significantly more corporate attention to manage, as certain stores in European markets underperformed.

While revenue grew with the expansion of the store network, gross profit margin was negatively impacted as selling general and administrative costs had materially increased. In the second quarter of 2018, gross profit margin fell to 21.2% of revenue and selling, general and administrative expenses had increased to 70% percent of sales.

Appointment of Seasoned Senior Retail Management and Implementation of Strategic Plan

Having proven the viability of the LXR concept at scale, in an effort to satisfy the increased demand from retail partners for its shop-in-shop locations, LXR embarked on a significantly accelerated growth plan that, upon execution, had a significantly negative impact on gross margin and corporate costs. Recognizing LXRandCo's need for greater operating discipline and experienced retail operational and managerial experience, in May 2018, LXR's Board of Directors appointed an existing company director and experienced retail executive, Steven Goldsmith, as President and Chief Executive Officer, bringing 30 years of retail operations experience to the Company. Mr. Goldsmith undertook a comprehensive review of the Company and formulated the development and implementation of a business strategy focused on prudent and focused revenue growth, margin expansion and sustainable cash flow generation.

Management believes the successful execution of this renewed and more focused strategy will enable the Company to realize its true potential and drive long-term value for shareholders.

Strategic Plan: Realizing the Full Potential of LXRandCo

The key components of LXR's strategic plan are:

1. Refocusing of the Retail Store Network for Profitable Stores and Cash Contribution – LXR is refocusing its physical retail network presence with only the most strategic partners located in Canada and the United States, and plans to establish its presence in the 25 to 30 largest designated market areas (DMAs), which represent more than half the combined population of both countries.

With its renewed focus, in the first half of 2018, the Company closed all of its 28 stores in Europe. In aggregate, the Company's European business was more negatively impacted by higher store costs than its North American counterpart business (including higher labour costs and costs due to increased regulatory and compliance requirements), higher corporate costs to support an overseas business, and a critical lack of scale.

In addition, in North America, the Company closed all its 16 remaining store locations with a retail partner (located predominantly in the Northeast United States) in the first half of 2018, which in aggregate underperformed the Company's expectations on both a revenue growth and profitability basis. The Company also transitioned 12 other underperforming locations to wholesale arrangements during the fourth quarter of 2018 as part of its retail partner model optimization strategy. In addition, during the fourth quarter of 2018, the Company opened seven stores, including six with a new retail partner.

2. Refined Business Model -- With the benefit of experience, LXR has evolved its partner model such that it is now focused on increasing store contribution margin to the Company, which drives decisions around retail partner arrangements. The LXR retail partner model now enables a spectrum of contractual arrangements with the Company's retail partners to optimize contribution margin to LXR across a wide variety of scenarios. The new LXR retail partner model will ensure the Company operates profitably and sustainably with each and every partner.

3. Focused Product Offering -- LXR will streamline its product offering solely to vintage branded luxury women's handbags and accessories, the Company's core competency and, typically recognized as the customer's primary entry point to luxury brands. This segment also generates higher gross margins than men's accessories, fine jewelry, apparel and other ancillary, non-core products. Accordingly, the Company will gradually phase out its men's accessories, fine jewelry, apparel and other ancillary offerings through the normal course sale of its existing inventories.

4. Margin Expansion -- In addition to the anticipated benefits to gross margin from the increased geographical and product focus, LXR expects gross margin to benefit from:

- Increased e-commerce and wholesale sales over both the short- and medium-term; and
- More efficient logistics and a more disciplined inventory purchasing approach.

5. Cost Management – In addition to cost savings realized from the closure of the European business, the Company has undertaken a comprehensive cost-reduction plan to bring Company-wide selling, general and administrative expenses in line with the revised revenue growth trajectory. LXR has reduced its corporate headcount and implemented rigorous cost controls throughout the organization. Overall cost management remains a top priority for LXR management and the Company is continuing to pursue further cost reduction initiatives.

6. Customer Engagement – LXR is increasing its focus and attention on serving customers across the multiple channels in which the Company engages in. Specifically, the Company intends to intensify its efforts to grow its significantly underpenetrated e-commerce opportunity. Having leveraged its first-mover advantage to become the only vintage luxury handbag retailer with a national physical retail network, LXR will invest significantly in the medium-term in its online customer acquisition for its own web property, including:

- Increasing investment in search engine optimization, and
- Implementing new initiatives in marketing and customer retention.

LXR is also focusing on driving incremental business through its retail partners' e-commerce platforms by better leveraging their digital strategies, as well as expand its digital reach through the addition of new online retail partners.

The Company will also pursue new growth initiatives for the wholesale component of its retail partner model, which is an established channel with significant opportunity. Wholesale arrangements enable LXR to profitably and to optimally supply its goods to stores for which a license agreement is not economically feasible, as well as to test the market potential of its product offering in new geographic areas and with potential new retail partners.

On the product sourcing side, the Company will also improve gross margin efficiencies by expanding its direct-from-consumer purchasing program, such that a significantly larger proportion of its customer base will be able to sell and/or trade-in their own vintage luxury handbags and accessories to LXR.

Financial Results Benefitting from Initial Success of Strategic Plan

As evidenced by the improvement in key operational metrics and financial results in the quarters since implementation, the strategic plan is yielding results. As at December 31,2018, management's cost reduction measures resulted in SG&A expenses as a percentage of net revenue improving to 70% for the fourth quarter compared to 83% for the second quarter of 2018, when SG&A as a proportion of revenue peaked. Cash provided from operating activities in Q4 is the highest of all 2018 quarters amounting to $404,577. Finally, the Company has now been able to focus on the performance of its existing stores. For 2018, average productivity for the Company's 40 stores that have been open for more than 12 months was $2,064 per square foot.

Outlook: Continued Focus on Disciplined Growth, Expanded Margins and Cash Flow Generation

LXRandCo is a proven retail concept with strong underlying industry fundamentals anchored by long-term macro trends. The Company continues to occupy a differentiated position in the North American market as the only vintage luxury handbag and accessory retailer with a large, national physical retail network and a robust e-commerce platform. As a result, LXRandCo has a unique opportunity to not only grow its retail store network but also leverage its physical retail presence and retail partner relationships to significantly grow its underpenetrated e-commerce business.

In August 2018, LXRandCo's Board of Directors, in parallel with the implementation of the Company's updated strategic plan, formed a special committee of independent directors to identify and evaluate a broad range of strategic and financing alternatives available to the Company to unlock the value of LXRandCo's unique omnichannel platform. Following a rigorous review process, on March 4, 2019, LXRandCo completed a private placement equity financing for gross proceeds of $5.0 million. It is management's view that the proceeds of the financing provide the financial stability and requisite capital resources to fund continued execution of the strategic plan.

With the LXR retail partner model now substantially revised to support sustainable positive cash flow, management will now focus on executing the growth strategy across its various businesses. Having made significant progress on the strategy in the second half of 2018, the Company is pursuing revenue, with specific strategies and initiatives in each of the three components of its business: the physical retail store network, e-commerce and wholesale. The Company also intends to expand its gross margin, while prudently managing its cost structure, with the objective to have sustainable positive cash flow from operations and profitability.

Expand Retail Network

LXRandCo plans to expand the number of stores in its physical retail network presence, with the objective of establishing a presence in the 25 to 30 largest DMAs in the U.S. and Canada, which in aggregate represent more than half the combined population of both countries. The Company will open new stores with only the most strategic partners. In addition, its new retail partner model, which enables a spectrum of arrangements with the Company's retail partners to optimize contribution margin to LXRandCo across a wide variety of scenarios, will support the Company's objective to operate in profitably and sustainably with each and every partner.

Expand the E-commerce Business

LXRandCo is intensifying its efforts to grow its significantly underpenetrated e-commerce opportunity. Having leveraged its first-mover advantage to become the only vintage luxury handbag retailer with a national physical retail network, LXR will invest significantly in its online customer acquisition for its own web property, including:

- Increasing investment in search engine optimization, and
- Implementing new initiatives in marketing and customer retention.

LXRandCo is in the early phases of leveraging advanced business intelligence and behaviour analytics to further enhance its understanding of its customers. This includes optimizing its online operations to enhance personalization, which LXRandCo believes will drive higher conversion and customer loyalty.
LXRandCo is also focusing on driving incremental business through its retail partners' e-commerce platforms by better leveraging their digital strategies, as well as expand its digital reach through the addition of new online retail partners.

Management also believes there is a complementary relationship between its retail network and its e-Commerce operations, with the success of each channel benefiting the other. As LXRandCo continues to expand its physical retail network across North America, management believes that its e-Commerce business will benefit from the increased awareness of the LXRandCo brand resulting from its larger and more expansive store network and the opportunity to extend retail network customer relationships to online and vice versa. LXRandCo believes there is an opportunity to meaningfully grow its e-Commerce business.

Expand the Wholesale Business

LXRandCo is pursuing new growth initiatives for the wholesale component of its retail partner model, which is an established channel with significant opportunity. Wholesale arrangements enable LXR to profitably and to optimally supply its goods to stores for which a license agreement is not economically feasible, as well as to test the market potential of its product offering in new geographic areas and with potential new retail partners.

Gross Margin Expansion

In addition to growing sales in each component of its business, LXRandCo intends to expand gross margin on those sales. The narrowing of its geographical focus to the U.S. and Canada and the streamlining of its product offering solely to vintage branded luxury women's handbags and accessories are each expected to favourably impact gross margin. In addition, LXRandCo expects gross margin to benefit from:

- Increased e-commerce and wholesale sales over both the short- and medium-term; and
- More efficient logistics and a more disciplined inventory purchasing approach.

LXRandCo will also pursue margin expansion by diversifying its supply channels, specifically by increasing the amount of product it sources directly from consumers, which typically have lower or no duties, transport and shipping costs, while still maintaining the benefits of better inventory control achieved through purchases from third party suppliers. The increase in LXRandCo's consumer buying program is expected to be facilitated by the planned expansion in LXRandCo's retail network and growth in e-Commerce business.

Pursue Attractive Acquisition Opportunities

Where appropriate, the Company may accelerate growth by pursuing acquisitions that complement its strategic initiatives. In the near term, LXRandCo will consider opportunities that augment its e-Commerce capability and diversify its sources of supply. In the longer term, LXRandCo may consider adding new product categories to its product offering and/or alternative and complementary distribution channels through selective acquisitions.

Discontinued operations

As at September 30, 2018, the Company ceased the operations of its European based subsidiaries, LXR&Co Germany GmbH, LXR&Co UK Limited, and LXRandCo Netherlands B.V. As the cash flows related to the operations of the European based subsidiaries are clearly distinguished, both operationally, geographically and for financial reporting purposes from the rest of the entity, the financial performance within these entities for the comparative periods has been reclassified and presented separately as discontinued operations in the consolidated statements of comprehensive loss and cash flows.

The net income (loss) from discontinued operations is detailed as follows:

	For the three-month period ended December 31		For the twelve-month period ended December 31	
	2018	2017	2018	2017
	$	$	$	$
Net Loss from discontinued operations	**(112,438)**	**(663,466)**	**(2,564,804)**	**(1,272,021)**

There were no income tax effects related to discontinued operations for any of the periods ended December 31, 2018 and 2017.

For the year ended December 31, 2018, the Company incurred expenses of $1,060,654 related to the closure of its European stores.

Financial and Operating Highlights

Refer to the section entitled "How Management Assesses the Performance of LXRandCo" in this MD&A for the definition of items disclosed below and, when 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 below results relate to the continuing operations of the Company.

Three-Month Period Ended December 31, 2018 Compared to Three-Month Period Ended December 31, 2017 (restated)

Select financial highlights include the following:

- The retail network at December 31, 2018 had 17% fewer stores and consisted of 86 stores compared to 103. This decrease in stores is primarily due to the closure of four stores during the fourth quarter of 2018, as well as the transition of 12 retail stores to a wholesale arrangement as part of the Company's retail partner model optimization strategy. During the fourth quarter 2018, the Company opened seven stores, including six with a new retail partner.

- Net revenue decreased 20.0% to $10.9 million from $13.6 million, largely from the operation of fewer stores. Net revenue increased 10% from $9.9 million in the third quarter of 2018.

- Gross profit was $3.3 million compared to $2.7 million.

- Gross profit margin was 30.3% compared to 20.1%.

- Selling, general and administrative expenses were $7.6 million compared with $5.9 million. Excluding non-recurring costs primarily related to the store closures and professional fees related to the strategic review and private placement financing, SG&A expenses were $6.2 million, or 57.1% of net revenue

- Net loss improved to $3.7 million compared to $3.8 million.

- Adjusted EBITDA (a non-IFRS measure) was $(2.5) million, compared to $(2.8) million for 2017.

- Adjusted Net Loss (a non-IFRS measure) was $2.8 million, compared to $3.6 million for 2017.

- Cash flows provided from/ (used in) operations improved to $0.4 million from $(2.2) million.

Year Ended December 31, 2018 compared to Year Ended December 31, 2017 (restated)

Select financial highlights include the following:

- The retail network decreased to 86 in the twelve-month period ended December 31, 2018, as a result of the significant store closures.

- 48 stores were opened in 2018 offset by 65 closures, compared to 67 store openings in 2017, offset by four closures**.**

- Net revenue increased 20.3% to $39.0 million from $32.4 million.

- Average revenue productivity for the Company's 40 stores that have been open for more than 12 months was $2,064 per square foot.

- Gross profit increased 15.8% to $9.8 million from $8.4 million

- Gross profit margin was 25.0% compared to 26.0%.

- Selling, general and administrative expenses were $24.5 million, or 63% of net revenue compared with $13.8 million, or 43% of net revenue. Excluding non-recurring costs primarily related to the store closures and professional fees related to the strategic review and private placement financing, SG&A expenses were $23.1 million, or 59.1% of net revenue

- Net loss from continuing operations and discontinued operations improved to $22.2 million compared to $52.4 million in 2017. Excluding discontinued operations, net loss from continuing operations was $19.6 million, compared to $51.1 million for 2017.

- Adjusted EBITDA (a non-IFRS measure) was $(12.7) million, compared to $(4.0) million in 2017.

- Adjusted Net Loss (a non-IFRS measure) was $15.0 million, compared to $5.6 million in 2017.

- Cash flow used from operations improved to ($7.3) million from ($15.3) million

Additional Operating Highlights

Select other operating highlights, subsequent to December 31, 2018 include:

On March 4, 2019, the Company completed a non-brokered private placement to Gibraltar & Company, Inc., Gibraltar Brands, Inc. and Gibraltar Ventures Fund One Limited Partnership, which are insiders or affiliates of insiders of the Company, and Star Orange Enterprise Pte. Ltd. (an affiliate of the Rattha Group), of an aggregate of 12,500,000 Class B Shares in the capital of the Company at a price of $0.40 per Share for gross proceeds of CAD$5,000,000. The net proceeds of the private placement are to be used to fund the execution of LXRandCo's strategic plan, which is focused on disciplined revenue growth, margin expansion and sustainable cash flow generation, and includes prudent expansion of the Company's retail network (store count) in the U.S. and Canada, as well as initiatives intended to expand the underpenetrated e-commerce and wholesale channels. Completion of the private placement concluded the mandate of the Company's special committee of independent directors to identify and evaluate a broad range of strategic and financing alternatives for the Company and which unanimously recommended the Private Placement.

Factors Affecting Results from Operations

Management believes that the performance and future success of LXRandCo depends on a number of factors that present significant opportunities. These factors are also subject to a number of risks and challenges, some of which are discussed under the headings "Risk Factors" and "Management's Discussion and Analysis of LXR – Risk Factors" in LXRandCo's Annual Information Form dated April 1, 2019 (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 from time to time.

LXR Brand

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

Product Mix and Merchandising Strategy

LXRandCo believes that its ability to determine which products and brands to offer its addressable market is a key driver of its net revenue growth. LXRandCo gains an understanding of market demand for pre-owned vintage luxury products by analyzing general demographic data, data provided by retail partners on product sales and location-specific traffic, and occasionally data obtained from the launch of pop-up stores. LXRandCo's merchandising strategies have been developed since its inception and are continuously refined to ensure that LXRandCo offers an attractive value proposition to its targeted demographic, with the right product, at the right time, at the right price and across all channels. LXRandCo's continued success will depend on, among other factors, its ability to properly assess demand in its targeted markets and to continue to implement a disciplined merchandise planning strategy that allows it to maintain optimal inventory levels, product assortment and pricing.

Sourcing and Authentication

LXRandCo sources its merchandise primarily from third party suppliers in Japan and to a lesser extent other suppliers including consumers. LXRandCo contracts and maintains direct relationships with a diversified base of independent third party suppliers which provide the Company with the flexibility to source specific high quality vintage luxury products at competitive costs in significant quantities. It is management's intention to increase the amount of product it sources directly from consumers in order to improve margins while still maintaining the benefits of better inventory control achieved through purchases from third party suppliers. Significant disruptions in LXRandCo's current and planned sources of product supply could affect LXRandCo's ability to address market demand and achieve future revenue growth targets and store productivity objectives. LXRandCo will continue to diversify its sourcing alternatives by increasing the proportion it buys directly from consumers through LXRandCo's retail network and through its web channel at www.lxrco.com.

In addition to authentication guarantees provided to it by suppliers, LXRandCo maintains a rigorous internal authentication process whereby all products sourced from suppliers and customers are inspected by highly trained teams of product experts. Any loss of trust in the authenticity of LXRandCo's products could adversely affect LXRandCo's business and financial results. LXRandCo will continue to maintain uncompromising standards in product authentication in order to provide an authenticity guarantee on all product sales.

Retail Network Expansion

LXRandCo will continue to prudently expand its retail network across Canada and the United States. LXRandCo's ability to successfully expand its retail network will depend on numerous factors, including its ability to minimize closures of existing stores, secure new retail partners and expand existing partnerships in targeted geographies and generate the anticipated financial performance for LXRandCo and its retail partners. Management anticipates leveraging the success of its current retail partner relationships into new store openings and developing new retail partner relationships through outbound business development efforts.

Retail Network Productivity and Scalability

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

e-Commerce Growth

LXRandCo's launched its e-Commerce offering in 2013, and management believes there is an opportunity to meaningfully grow its e-Commerce business. LXRandCo plans to leverage business intelligence and behaviour data to further enhance its understanding of customer preferences and buying behaviour. This includes optimizing its online operations to enhance personalization, which LXRandCo believes will drive higher conversion rates and increased customer loyalty. Management also believes there is a synergistic relationship between its retail network channel and www.lxrco.com, with the success of each benefiting the other through increased brand awareness and affinity. As LXRandCo expands its retail network, management believes that its e-Commerce business will benefit from the increased awareness of the LXRandCo brand resulting from the larger and more expansive retail network.

Consumer Trends

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

Seasonality

LXRandCo's business has not demonstrated significant seasonality to date, with only a slightly higher proportion of net revenue generated during the second half of the year. The days leading up to Valentine's Day and Mother's Day in the first and second quarter of the year, respectively, are important sales generating periods as well as the Christmas holiday season in the fourth quarter of the year.

Based on the net revenue generated by the 40 stores open for a full year in 2018, the quarterly share of annual net revenue for the year was as follows:

First fiscal quarter	23%
Second fiscal quarter	25%
Third fiscal quarter	22%
Fourth fiscal quarter	30%
Yearly total	100%

While LXRandCo's business has not demonstrated significant seasonality to date, seasonal or cyclical variations in business may become more pronounced over time as its retail network expands. Most store openings typically occur in the fall season which could lead to more pronounced variations in LXRandCo's results in years with significant new store additions.

Competition

LXRandCo operates in the pre-owned branded vintage luxury accessories industry in North America. LXRandCo competes on the basis of several factors that include its mix of products and brands, more affordable product price points relative to new branded luxury products, its ability to source specific products more consistently and with greater depth, its omni-channel sales network capabilities, its guarantee of authenticity, its retail partner relationships, its focus on providing exceptional customer service and its market positioning within a growing demographic for its products. Management believes the industry is evolving to benefit players like LXRandCo that can leverage synergistic omni-channel capabilities.

Foreign Exchange

LXRandCo reports in Canadian dollars. The majority of LXRandCo's net revenue is derived in U.S. dollars while the vast majority of its cost of goods sold is denominated in Japanese Yen. Future fluctuations in the exchange rate of the Canadian dollar versus the U.S. dollar, and the Canadian dollar versus the Japanese Yen could materially affect LXRandCo's gross profit margins and operating results. At present, LXRandCo is not using any hedging strategies in a material way to mitigate risks associated with forecasted Japanese Yen merchandise purchases sold in Canada and the United States.

How Management Assesses the Performance of LXRandCo

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

Net Revenue

Net revenue primarily reflects the sale of merchandise, net of discounts, rebates, estimated returns and sales taxes. Net revenue from Retail Stores, is recognized at the point of sale, when the merchandise is delivered to the customer. Net revenue from e-Commerce sales is recognized when merchandise is delivered to the customer.

Gross Profit

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

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

SG&A expenses consist of selling expenses that are generally variable with net revenue, and general and administrative operating expenses that are primarily fixed. Management expects the variable component of SG&A expenses to increase as it continues to expand its retail store network, grow its e-Commerce business, increase brand awareness and invest in its infrastructure. LXRandCo's SG&A expenses may include different expenses compared to other retailers.

Net Loss

Net loss reflects gross profit less SG&A expenses, amortization and depreciation expenses, write-offs of property and equipment, and impairment of goodwill expenses to arrive at results from operating activities. It then further reflects the deduction of finance costs, debt extinguishment costs, foreign exchange loss (gain), convertible redeemable preferred share dividends, non-recurring gain from a step business combination, excess of fair value over net assets acquired, non-recurring acquisition costs, gain on expiration of warrants, gain or loss on disposition of assets, changes in fair value of convertible redeemable preferred shares, change in fair value of warrants and other non-recurring costs to arrive at loss before income taxes from which income tax expense is deducted to arrive at net loss.

Adjusted Net Loss

Adjusted Net Loss is a non-IFRS measure that management believes is a useful measure of LXRandCo's performance, as it provides a more relevant picture of results by excluding the effects of expenses that are not reflective of underlying business performance, and other non-cash or non- recurring expenses. Management uses Adjusted Net Loss to facilitate a comparison of its performance on a consistent basis from period-to-period and to provide for a more complete understanding of factors and trends affecting LXRandCo's business. Adjusted Net Loss is reconciled to Net Loss, its nearest GAAP measure, on page 16 for expenses that management considers to be not representative of LXRandCo's ongoing operating performance, net of related tax effects.

EBITDA

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

Adjusted EBITDA

Adjusted EBITDA is a non-IFRS measure that management believes is a useful measure of operating performance in that it excludes the effects of financing and investing activities from operating results by removing the effects of amortization and depreciation expense, finance costs, expense that are not reflective of underlying business performance, and other non-cash or non- recurring expenses. Management uses Adjusted EBITDA to facilitate a comparison of its operating performance on a consistent basis from period-to-period and to provide for a more complete understanding of factors and trends affecting LXRandCo's business. Adjusted EBITDA is reconciled to Net Loss, its nearest GAAP measure, on page 17 for expenses that management considers to be not representative of LXRandCo's ongoing operating performance. Because Adjusted EBITDA excludes non-cash items, management believes that it is less susceptible to variances in actual performance resulting from depreciation, amortization and other non-cash charges.

Selected Consolidated Financial Information

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

LXRandCo, Inc.

Condensed consolidated statements of loss and comprehensive loss

(in Canadian dollars)

	For the 3-month period ended Dec 31,		For the 12-month period ended Dec 31,	
	2018	2017	2018	2017
Net revenue	10,864,627	13,582,409	39,018,893	32,442,718
Cost of sales	7,575,969	10,858,042	29,245,980	24,004,324
Gross profit	3,288,657	2,724,367	9,772,913	8,438,394
Operating expenses				
Selling, general and administrative expenses	7,587,249	5,863,146	24,453,744	13,845,067
Amortization and depreciation expenses	314,179	232,265	1,323,932	443,472
Impairment of goodwill	—	—	3,683,987	—
Results from operating activities	(4,612,771)	(3,371,044)	(19,688,750)	(5,850,145)
	70%	43%	63%	43%
Other income and expenses				
Finance costs	90,360	270,415	1,028,479	1,010,496
Debt extinguishment costs	—	—	—	612,939
Foreign exchange gain	(913,416)	(190,755)	(1,041,004)	(180,847)
Convertible redeemable preferred share dividends	—	—	—	48,112
Non-recurring gain from a step business combination	—	—	—	(1,465,090)
Excess of fair value over net assets acquired	—	—	—	46,194,600
Non-recurring acquisition costs	—	4,356	—	819,141
Gain on expiration of warrants	—	—	—	(2,401,402)
Change in fair value of convertible redeemable preferred shares	—	—	—	226,101
Change in fair value of warrants	—	—	—	257,532
Loss before income taxes	(3,789,714)	(3,455,060)	(19,676,225)	(50,971,727)
Income tax expense (recovery)				
Current	(87,576)	114,712	(47,511)	106,240
Deferred	(44,619)	216,752	(619)	39,528
	(132,194)	331,464	(48,130)	145,768
Net loss from continuing operations	(3,657,520)	(3,786,524)	(19,628,096)	(51,117,495)
Net loss from discontinued operations	(112,438)	(663,466)	(2,564,804)	(1,272,021)
Net loss for the period	(3,769,958)	(4,449,990)	(22,192,900)	(52,389,516)
Other comprehensive loss				
Cumulative translation adjustment - continued operations	(740,098)	(350,679)	(698,709)	(310,029)
Cumulative translation adjustment - discontinued operations	4,921	(34,913)	(54,844)	(30,552)
Comprehensive loss for the period	(4,505,135)	(4,835,582)	(22,946,453)	(52,730,097)

LXRandCo, Inc.

Condensed consolidated statements of loss and comprehensive loss

(in Canadian dollars)

	For the 3-month period ended Dec 31,		For the 12-month period ended Dec 31,	
	2018	2017	2018	2017
Net revenue	100%	100%	100%	100%
Cost of sales	70%	80%	75%	74%
Gross profit	30%	20%	25%	26%
	0%	0%	0%	0%
Operating expenses	0%	0%	0%	0%
Selling, general and administrative expenses	70%	43%	63%	43%
Amortization and depreciation expenses	3%	2%	3%	1%
Impairment of goodwill	0%	0%	9%	0%
Results from operating activities	-42%	-25%	-50%	-18%
	0%	0%	0%	0%
Other income and expenses	0%	0%	0%	0%
Finance costs	1%	2%	3%	3%
Debt extinguishment costs	0%	0%	0%	2%
Foreign exchange gain	-8%	-1%	-3%	-1%
Convertible redeemable preferred share dividends	0%	0%	0%	0%
Non-recurring gain from a step business combination	0%	0%	0%	-5%
Excess of fair value over net assets acquired	0%	0%	0%	142%
Non-recurring acquisition costs	0%	0%	0%	3%
Gain on expiration of warrants	0%	0%	0%	-7%
Change in fair value of convertible redeemable preferred shares	0%	0%	0%	1%
Change in fair value of warrants	0%	0%	0%	1%
Loss before income taxes	-35%	-25%	-50%	-157%
	0%	0%	0%	0%
Income tax expense (recovery)	0%	0%	0%	0%
Current	-1%	1%	0%	0%
Deferred	0%	2%	0%	0%
	-1%	2%	0%	0%
Net loss from continuing operations	-34%	-28%	-50%	-158%
Net loss from discontinued operations	-1%	-5%	-7%	-4%
Net loss for the period	-35%	-33%	-57%	-161%
	0%	0%	0%	0%
Other comprehensive loss	0%	0%	0%	0%
Cumulative translation adjustment - continued operations	-7%	-3%	-2%	-1%
Cumulative translation adjustment - discontinued operations	0%	0%	0%	0%
Comprehensive loss for the period	-41%	-36%	-59%	-163%

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

	For the 3-month period ended Dec 31,		For the 12-month period ended Dec 31,	
	2018	**2017**	**2018**	**2017**
Reconciliation of Net Loss to Adjusted Net Loss				
Net Loss	**(3,769,958)**	(4,449,990)	**(22,192,900)**	(52,389,516)
Adjustments to Net Income:				
Debt extinguishment costs	—	—	—	612,939
Foreign exchange gain	**(913,416)**	(190,755)	**(1,041,004)**	(180,847)
Impairment of goodwill	—	—	**3,683,987**	—
Impairment of property and equipment	**80,675**	—	**80,675**	—
Write off of property and equipment	—	—	**127,696**	—
Convertible redeemable preferred share dividends	—	—	—	48,112
Non-recurring gain from a step combination	—	—	—	(1,465,090)
Excess of fair value over net assets acquired	—	—	—	46,194,600
Non-recurring Qualifying Acquisition costs	—	4,356	—	819,141
Gain on expiration of warrants	—	—	—	(2,401,402)
Stock-Based Compensation Expense	**323,993**	331,255	**426,308**	1,395,388
Professional fees related to strategic review and private placement	**659,308**	—	**659,308**	—
Store closing cost	**725,084**	—	**725,084**	—
Change in fair value of convertible redeemable preferred shares	—	—	—	226,101
Change in fair value of warrants	—	—	—	257,532
Loss from discontinued operations	**112,438**	663,466	**2,564,804**	1,272,021
Adjusted Net Loss	**(2,781,877)**	(3,641,668)	**(14,966,042)**	(5,611,021)

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

	For the 3-month period ended Dec 31,		For the 12-month period ended Dec 31,	
	2018	2017	2018	2017
Reconciliation of net loss to Adjusted EBITDA				
Net Loss	**(3,769,958)**	(4,449,990)	**(22,192,900)**	(52,389,516)
Add: Amortization and depreciation expense	**314,179**	232,265	**1,323,932**	443,472
Add: Finance Costs	**90,360**	270,415	**1,028,479**	1,010,496
Add: Income Tax Expense (Recovery)	**(132,194)**	331,464	**(48,130)**	145,768
EBITDA	**(3,497,615)**	(3,615,846)	**(19,888,619)**	(50,789,780)
Adjustments to EBITDA:				
Debt extinguishment costs	—	—	—	612,939
Foreign exchange gain	**(913,416)**	(190,755)	**(1,041,004)**	(180,847)
Impairment of goodwill	—	—	**3,683,987**	—
Impairment of property and equipment	**80,675**	—	**80,675**	—
Write off of property and equipment	—	—	**127,696**	—
Convertible redeemable preferred share dividends	—	—	—	48,112
Non-recurring gain from a step combination	—	—	—	(1,465,090)
Excess of fair value over net assets acquired	—	—	—	46,194,600
Non-recurring Acquisition costs	—	4,356	—	819,141
Gain on expiration of warrants	—	—	—	(2,401,402)
Stock-Based Compensation Expense	**323,993**	331,255	**426,308**	1,395,388
Professional fees related to strategic review and private placement	**659,308**	—	**659,308**	—
Store closing costs	**725,084**	—	**725,084**	—
Change in fair value of convertible redeemable preferred shares	—	—	—	226,101
Change in fair value of warrants	—	—	—	257,532
Loss from discontinued operations	**112,438**	663,466	**2,564,804**	1,272,021
Adjusted EBITDA	**(2,509,533)**	(2,807,524)	**(12,661,761)**	(4,011,285)

The following table provides selected retail network data from continuing and discontinued operations and for the periods indicated:

Selected retail network data:	For the Three-Months Ended December 31, 2018	2017	For the Year Ended December 31, 2018	2017
Number of stores, beginning of period	95	85	131	44
Store openings	7	47	48	90
Store closures	16	1	93	3
Number of stores, end of period	**86**	**131**	**86**	**131**

Results of Operations

Analysis of Results for the Three-Month Period ended December 31, 2018 Compared to the Three- Month Period ended December 31, 2017 (restated)

The following section provides an overview of LXRandCo's financial performance during the three-month period ended December 31, 2018 compared to the three-month period ended December 31, 2017.

Net Revenue

Net revenue decreased by 20.0% to $10.9 million in the three-month period ended December 31, 2018 from $13.6 million in the three-month period ended December 31, 2017. LXRandCo's retail network consisted of 86 stores as at December 31, 2018 compared to 103 stores as at December 31, 2017 (excluding from the 2017 comparative are the 28 European stores closed in 2018 and subsequently classified as discontinued operations). There were seven new store openings in the three-month period ended December 31, 2018, four store closures, and 12 locations transitioning to a wholesale arrangement as part of the Company's retail partner optimization. The opening and closings were within the context of the Company's strategic plan, including its intention to prudently expand its retail network in the top designated market areas in the United States and Canada and implement an evolved retail partner model across its network.

During the quarter, net revenue from Canada and the United States was 11.0% and 89.0%, respectively. In the United States, LXRandCo's largest market, net revenue decreased by 19.9% from the prior period due to the effect of the closures in the United States in addition to a decrease in wholesale revenue.

Gross Profit

Gross profit increased by 20.7% to $3.3 million in the three-month period ended December 31, 2018 from $2.7 million in the three-month period ended December 31, 2017.

Gross profit margin for 2018 was 30.3% compared to 20.1% in 2017. The three-month period ended December 31, 2017 has been significantly impacted by the 2017 inventory shrinkage that was corrected in the context of the inventory counts performed by the Company in September 2018. An additional shrinkage provision was recorded for $1.1 million as of December 31, 2017.

SG&A Expenses

SG&A expenses were $7.6 million in the three-month period ended December 31, 2018, compared to $5.9 million.

Excluding non-recurring costs primarily related to the store closures and professional fees related to the strategic review and private placement financing, SG&A expenses were 57.1% of net revenue in the three-month period ended

December 31, 2018.

The number of employees decreased by 171 in the three-month period ended December 31, 2018 to 179 as at December 31, 2017 compared to an increase of 172 employees in the three-month period ended December 31, 2017 to 500 as at December 31, 2017.

Net Loss

Net loss was $3.7 million in the three-month period ended December 31, 2018, compared to a net loss of $3.8 million in the three-month period ended December 31, 2017. The decrease was largely attributable to the reduction of various non-recurring elements described above and mostly related to the LXR Acquisition.

Adjusted Net Loss

Adjusted Net Loss was $2.8 million in the three-month period ended December 31, 2018, compared to adjusted net loss of $3.6 million in the three-month period ended December 31, 2017. This decrease was the result of the factors discussed above.

Adjusted EBITDA

Adjusted EBITDA was $(2.5) million in the three-month period ended December 31, 2018, compared to $(2.8) million in the three-month period ended December 31, 2017. This decrease was primarily due to the factors discussed above. Adjusted EBITDA Margin was (23.8) % of net revenue in the three-month period ended December 31, 2018, compared to (20.7) % of net revenue in the three- month period ended December 31, 2017. This decrease was primarily due to the factors discussed above.

Analysis of Results for the Year ended December 31, 2018 Compared to the Year ended December 31, 2017 (restated)

The following section provides an overview of LXRandCo's financial performance during the year ended December 31, 2018 compared to the year ended December 31, 2017.

Net Revenue

Net revenue increased by 20.3% to $39.0 million in 2018 from $32.4 million in 2017. The increase in net revenue was primarily attributable to the increase in sales from LXRandCo operating more stores on average during 2018 than in 2017. LXRandCo's retail network consisted of 86 stores as at December 31, 2018 compared to 103 stores as at December 31, 2017, in line with the Company's strategic plan. There were 48 store openings in the year 2018 offset by 65 store closures.

For 2018, net revenue from Canada and the United States was 11.2% and 88.8%, respectively. In the United States, LXRandCo's largest market, net revenue increased by 29.6% in 2018 when compared to 2017.

Gross Profit

Gross profit increased for 2018 by 15.8% to $9.8 million from $8.4 million in 2017. The increase was primarily attributable to the increase in net revenue in addition to the 2017 inventory shrinkage correction described above.

Gross profit margin for 2018 was 25.0% compared to 26% in 2017. The decrease was due to a combination of factors as detailed in the discussion of gross profit margin for the three-month period ended December 31, 2018. The impact of these factors was less pronounced when taken into consideration with the results over the course of the full year.

SG&A Expenses

SG&A expenses increased by $10.6 million to $24.5 million from $13.8 million. In 2018. SG&A expenses were 63% of net revenue in 2018 compared to 43% of net revenue in 2017. Excluding non-recurring costs primarily related to the store closures and professional fees related to the strategic review and private placement financing, SG&A expenses were 59.1% of net revenue in the three-month period ended December 31, 2018.

The rapid expansion of LXRandCo's retail network throughout the fourth quarter of 2017 and into the first half of 2018 resulted in an overall increase in:

- Payroll and benefits costs of $6.6 million in 2018 to support growth in headcount related to head office, support personnel and retail personnel
- Store closing costs of $0.9 million as a result of the significant store closures in the United States with existing partners.
- Bad debt during the year amounting $0.9 million.
- IT infrastructure costs, travel and advertising expenses by $0.6 million.

Additionally, SG&A expenses increased as a result of the following:

- Public company and transaction costs incurred including items such as professional fees and directors' fees of $0.9 million.
- Non-recurring professional fees related to the strategic review and private placement financing amounted to $0.7 million.

The number of employees decreased by 321 in 2018 to reach 179, compared to a total employee headcount of 500 in 2017.

Finance Costs

Finance costs for 2018 were $1.0 million, unchanged from 2017.

Debt Extinguishment Costs

Debt extinguishment costs were nil in 2018 compared to $0.6 million in 2017. These costs resulted from the Company's decision to prepay its subordinated debt and credit facility upon the completion of the LXR Acquisition which led to early termination costs in 2017

Non-cash Expenses

Foreign Exchange Gain

Foreign exchange gain was $1.0 million in 2018 compared to $0.2 million in 2017.

Convertible Redeemable Preferred Share Dividends

Convertible redeemable preferred share dividends were nil in 2018 compared to $0.05 million in 2017. Upon completion of the LXR acquisition in 2017, the convertible redeemable preferred shares and corresponding dividends were converted into Class B shares of LXRandCo.

Non-Recurring Gain from a Step Business Combination

Non-recurring gain from a step business combination was nil in 2018 compared to $1.5 million in 2017. The Company recognized a gain resulting from the increase in fair value of its existing ownership of Groupe Global LXR Inc. following the repurchase of the interest in Groupe Global LXR Inc. that it did not own on January 1, 2017.

Excess of Fair Value Over Net Assets Acquired

The excess of fair value over net assets acquired arose from the accounting treatment of the LXR Acquisition was nil in 2018, compared to $46.2 million in 2017. While Gibraltar Growth was the legal acquirer of LXR International in the transaction, LXR International was identified as the acquirer for accounting purposes and the transaction was accounted for under IFRS 2, Share- based Payments. Under IFRS 2, this amount represents the difference between the fair value of the shares deemed to have been issued by LXR International to affect the LXR Acquisition and the fair value of Gibraltar Growth's identifiable net assets at the time of the LXR Acquisition. This difference is characterized as a service received by LXR International and under IFRS 2 and was recorded through net loss.

Non-Recurring Acquisition Costs

Non-recurring acquisition costs were nil in 2018, compared to $0.8 million in 2017. This represents non-recurring costs associated to the cost of becoming a publicly-listed reporting issuer as a result of the LXR Acquisition.

Gain on Expiration of Warrants

The gain on expiration of warrants was nil in 2018, compared to $2.4 million in 2017. The Company recognized a gain resulting from the reduction of a financial liability associated with the issuance and partial exercise of 130,039 warrants to purchase convertible redeemable preferred shares.

Income Tax Expense (Recovery)

Income tax Expense (Recovery) was $(0.05) million in 2018 compared to $0.1 million in 2017. The Company carries unused tax losses in many jurisdictions which explains the income tax recovery.

Net Loss

Net loss from continuing and discontinued operations was $22.2 million in 2018 compared to a net loss of $52.4 million in 2017. The decrease of $30.2 million was largely attributable to higher SG&A expenses as described above and various non-recurring elements mostly related to the LXR Acquisition.

Adjusted Net Loss

Adjusted Net Loss was $15.0 million in 2018, compared to $5.6 million in 2017. This increase in Adjusted Net Loss was mostly due to the 2017 normalizing items related to the LXR Acquisition.

Adjusted EBITDA

Adjusted EBITDA was $(12.7) million in 2018 compared to $(4.0) million in 2017 and Adjusted EBITDA Margin was (32.5) % in 2018 compared to (12.4%) in 2017. These decreases were primarily due to the factors discussed above.

Selected Quarterly Financial Information

The following table summarizes the results of LXRandCo for the most recently completed quarters for which financial statements have been prepared since the Company has been a reporting issuer. This unaudited quarterly information has been prepared in accordance with IFRS. Due to the rapid growth in the business and seasonality, the results of operations for any quarter are not necessarily indicative of the results of operations for the year and it is not possible to discern any trends from the quarterly financial information that is available.

	For the Quarter Ended							
	2018				2017			
Consolidated statements of loss:	Q4	Q3	Q2*	Q1*	Q4	Q3	Q2*	Q1*
Net revenue	$10,864,627	$ 9,945,705	$ 9,951,231	$ 9,972,514	$ 13,582,409	$ 8,793,081	$ 7,174,723	$ 6,145,962
Income (Loss) before income taxes	(3,789,714)	(3,093,027)	(10,656,889)	(4,282,403)	(3,455,060)	(2,120,592)	(48,238,657)	2,234,028
Net loss	(3,657,520)	(3,400,989)	(10,695,550)	(4,326,403)	(3,786,524)	(2,045,432)	(48,127,002)	2,232,908
Net income (Loss) per share								
Basic	(0.28)	(0.21)	(0.75)	(0.32)	(0.38)	(0.18)	(7.82)	0.49
Fully diluted	(0.28)	(0.21)	(0.75)	(0.32)	(0.38)	(0.18)	(7.82)	0.31

*Three-month periods ending June 30, 2018, March 31, 2018, June 30, 2017 and June 30, 2017 are not reflecting the discontinued operations as disclosed in the three-month month period ending December 31, 2018, September 30, 2018, December 31, 2017 and September 30, 2017.

Liquidity and Capital Resources

Overview

LXRandCo's primary uses of funds are for operating expenses, working capital requirements, capital expenditures and debt service requirements. Management believes that its capital structure provides the financial flexibility required to allow it to pursue its future growth strategies. LXRandCo's ability, however, to fund operating expenses, working capital requirements, capital expenditures and future debt service requirements will depend on, among other things, its future operating performance, which will be affected by general economic, financial and other factors, including factors beyond its control. See "Factors Affecting Results from Operations" and "Risk Factors" sections in this MD&A for additional information. LXRandCo also reviews acquisition opportunities in the normal course of business and may make select acquisitions to implement its business strategy when suitable opportunities arise. Management expects that the funding for any such acquisitions would come from cash balances, cash flow from operating activities and/or its credit facility.

Working Capital

Working capital includes cash, accounts receivable, taxes receivable, inventory, prepaid expenses and deposits, accounts payable and accrued liabilities, deferred revenue, sales tax payable, income tax payable and the current portion of long-term debt.

LXRandCo's need for working capital occurs at different points in the year, with peak requirements preceding Valentine's Day in February, Mother's Day in May and the December holiday season. In addition, since store openings tend to be greater in the fall season, working capital requirements will be more pronounced leading up to and during that period as LXRandCo continues the prudent expansion of its retail network.

Historically, LXRandCo's main sources of liquidity have been from cash on hand, cash generated from operating activities and borrowings under revolving credit facilities. As at December 31, 2018, LXRandCo's working capital was $9.2 million.

Credit Facilities and Other Indebtedness

The following summarizes the indebtedness incurred by LXRandCo as at December 31, 2018. This summary should be read in conjunction with the audited consolidated financial statements of the Company and notes thereto for the year ended December 31, 2018 and the amended and restated audited consolidated financial statements and notes for the year ended December 31, 2017.

Credit Facilities

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

The Line of Credit bears interest at (a) the bank's prime rate (3.95% as at December 31, 2018 and 3.2% as at December 31, 2017) or U.S. base rate if denominated in U.S. dollars (5.50% as at December 31, 2018 and 4.5% as at December 31, 2017) plus an applicable margin of 0.50%, or (b) the banker's acceptance rate (2.25 % as at December 31, 2018 and 1.37% as at December 31, 2017), plus an applicable margin of 2.00% or LIBOR (2.52% as at December 31, 2018 and 1.56% as at December 31, 2017) plus an applicable margin of 2.00%, at the Company's option. A commitment fee of 0.25% of the unused portion of the Line of Credit is also due. The Line of Credit matures on June 14, 2020.

The Line of Credit can be used to enter into foreign exchange contracts for a maximum amount of $1,000,000, secured by forward exchange contracts entered into by the Company. The Line of Credit can also be used to issue letters of credit for a maximum amount of $2,000,000.

The Line of Credit is collateralized by substantially all assets of the Company and its subsidiaries. The Line of Credit requires the Company to meet certain financial covenants, which were all met as at December 31, 2018.

Term Loans with Investissement Québec ("IQ")

The Company, through its wholly-owned subsidiary, LXR Canada Inc., entered into the following term loans with IQ:

(a) Term loan of $600,000 bearing interest at the bank's prime rate (3.95% as at December 31, 2018 and 3.2% as at December 31, 2017) plus an applicable margin of 3%. The loan is repayable by sixty monthly principal payments of $10,000 with a 12-month moratorium from June 1, 2015 to May 31, 2016. The loan matures on May 31, 2019. As at December 31, 2018, the debt obligation under this loan amounted to $50,000 (December 31, 2017 – $180,000).

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

Cash Flows

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

	For the year ended December 31,	
Cash Flow Data:	**2018**	**2017**
Cash flows used in operating activities.....................	(7,346,616)	(15,344,702)
Cash flows used in investing activities	(2,825,766)	(762,127)
Cash flows provided by financing activities	10,001,249	21,553,053
Cash from discontinued operations………………………	(1,675,172)	(2,314,847)
Effect of exchange rate changes on cash…………………………….	146,441	(55,317)

Net increase (decrease) in cash during the period	**(1,699,864)**	**3,076,059**
Cash, beginning of year..	4,015,025	938,966
Cash, end of year..	**2,315,161**	**4,015,025**

Analysis of Cash Flows for the year Ended December 31, 2018 Compared to the year Ended December 31, 2017

For the year ended December 31, 2018, cash used in operating activities was $7.3 million, compared to $15.3 million for 2017, a decreased use of cash of $8.0 million. This decrease was primarily attributable to the Company's rapid growth in store count and international expansion in 2017 resulting in a substantial use of cash from operating activities. In 2018, the Company developed and implemented a business strategy for LXR focusing on sustainable cash flow generation and cost reduction measures to reduce its cash used in operations.

For the year ended December 31, 2018, cash used in investing activities was $2.8 million compared to $0.8 million for the year ended December 31, 2017, a net increase in use of cash of $2.0 million. This increase was primarily due to the acquisition of capital assets in the year in addition to a $0.8 million decrease in cash provided from investing activities as a result of the cash acquired from the step business combination in 2017.

For the year ended December 31, 2018, cash provided by financing activities was $10.0 million compared to $21.6 million for the year ended December 31, 2017, a net decrease of $11.6 million. This decrease was primarily attributable to a decrease in cash provided from the LXR acquisition in 2017, offset by the Company's bought deal financing executed in February 2018.

For the year ended December 31, 2018, the net decrease in cash was $1.7 million, compared to a net increase in cash of $3.1 million for the year ended December 31, 2017, which resulted in an ending cash balance on December 31, 2018 of $2.3 million compared to $4.0 million on December 31, 2017.

Contractual Obligations

The following table summarizes LXRandCo's contractual maturities and carrying amounts of financial liabilities as at December 31, 2018:

	Maturing in under 1 Year	Maturing in 1 to 5 Years	Total
Contractual Obligations:			
Accounts payable and accrued liabilities	5,629,213	—	5,629,213
Line of credit	—	5,789,656	5,789,656
Long-term debt	59,895	13,034	72,929
Total Contractual Obligations	**5,689,108**	**5,802,690**	**11,491,798**

Commitments and Contingencies

The following table summarizes LXRandCo's off-balance sheet arrangements and commitments as at December 31, 2018:

	2019	2020	2021	2022	2023 +
Off-balance Sheet Commitments:					
Operating leases	$284,687	$225,906	$225,906	$225,906	$508,289

The schedule above includes amounts due to a company controlled by Fred Mannella, Chief Development Officer, and Kei Izawa, Chief Operating Officer in the amounts of $225,906 yearly for 2018, 2019, 2020, 2021 and 2022 respectively.

Related Party Transactions

In the normal course of its operations, LXRandCo 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. Transactions and balances between related parties were as follows for the periods indicated:

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

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

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

Significant Accounting Judgements, 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 judgements in applying accounting policies

i. Impairment of non-financial assets
Management is required to make significant judgments in determining if individual retail premises in which it carries out its activities are individual cash generating unit's (CGU), or if these units should be aggregated by retail partner to form a CGU. The significant judgment applied by management in determining that stores should be aggregated by retail partner to form a CGU is the interdependency of cash inflows and the way in which the Company and the Company's partners operate the retail premises within the CGU. Refer to note 7 with respect to impairment of property and equipment.

ii. Income taxes
The Company may be subject to audits related to tax risks, and uncertainties exist with respect to the interpretation of tax regulations, changes in tax laws, and the amount and timing of future taxable income. Differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to taxable income and income tax expense already recorded.

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

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

iii. Going concern

In assessing whether the going concern assumption is appropriate and whether there are material uncertainties that may cast significant doubt about the Company's ability to continue as a going concern, management must estimate future cash flows for a period of at least twelve months following the end of the reporting period by considering relevant available information about the future. These cash flow estimates are dependent on the Company's achievement of its new strategic plan, including its sales forecasts and monitoring of operational costs. These cash flows are subject to uncertainty. Management has concluded that there are no material uncertainties related to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern for at least the next twelve months.

Key sources of estimation uncertainty

i. Inventory valuation

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

During the year ended December 31, 2018, the provision for inventory valuation and obsolescence amounted to $521,945 ($120,137 as at December 31, 2017). The increase in this provision is mainly the result of the valuation associated with items sold at sample sale and winter clearance events as part of the Company's initiatives to liquidate slow-moving inventory.

ii. Estimation of fair value of equity instruments

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

New Accounting Standards adopted in 2018

The Company adopted the following new accounting standards effective January 1, 2018.

IFRS 9, Financial Instruments

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

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

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

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

IFRS 15, Revenue from Contracts with Customers

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

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

Standards issued but not yet effective

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

IFRS 16 Leases ("IFRS 16")

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

The new standard is effective for annual periods beginning on or after January 1, 2019. IFRS 16 will be applied for the 2019 annual fiscal period using the modified retrospective approach. Under this approach, the cumulative effect of initially applying IFRS 16 is recognized as an adjustment to equity at the date of initial application and the comparative figures for the year ended December 31, 2018 will not be restated to reflect the adoption of IFRS 16 but instead continue to reflect the lessee's accounting policies under IAS 17 Leases. The Company is currently assessing the impact of adopting this standard on its consolidated financial statements and related note disclosures.

Annual Improvements 2015-2017

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

Risk Factors

LXRandCo is subject to a variety of financial risks in the normal course of operations including foreign exchange, interest rate, credit and liquidity risk. LXRandCo's overall risk management program and business practices seek to minimize any potential adverse effects on its consolidated financial performance. The forgoing risk factors are only a summary of certain risk factors and are qualified in their entirety by reference to, and must be read in conjunction with, the detailed information appearing under the headings "Risk Factors" and "Management's Discussion and Analysis of LXR – Risk Factors" in LXRandCo's Annual Information Form dated April 1, 2019, and as described from time to time in the reports and disclosure documents filed by the Company with the Canadian securities regulatory agencies and commissions.

Evaluation of Disclosure Controls and Procedures and Internal control over Financial reporting

The implementation of the Canadian Securities Administrators National Instrument 52-109 requires a continuous improvement process, for which the Company needs to formalize existing processes and control measures. Disclosure controls and procedures and Internal Control over Financial Reporting refer to controls and other procedures designed to ensure that information required to be disclosed in the reports the Company files or submits under the Toronto Stock Exchange ("TSX") is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the TSX and that such information is accumulated and communicated to the Company's management, including the 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.

Management conducted its evaluation of the Company's controls and procedures and internal control over financial reporting under the supervision of the chief executive officer and the chief financial officer. Based on that evaluation, management concluded that the Company's controls and procedures were not effective as of December 31, 2018 and identified material weaknesses. 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:

(i) Lack of integration of the Company's information technology systems and lack of access restrictions; and
(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;

Due to the Company's size and significant growth, segregation of all conflicting duties may not always be possible and may not be economically feasible and management has not been able to take steps to improve and formalize the Company's internal controls over financial reporting during the year ended December 31, 2018.

To remediate the material weaknesses identified in internal control over financial reporting, during the three-month period ended December 31, 2018, the Company hired additional personnel with sufficient knowledge and experience in IFRS, such as an interim chief financial officer, and hired a qualified external consultant to increase available resources in consolidation and financial statements reporting processes.

The management team 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. 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.

Additional Information

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