Unaudited condensed consolidated interim financial statements of
MAV Beauty Brands Inc.

For the three and nine months ended September 30, 2021 and 2020
(in US dollars)

Unaudited consolidated interim statements of operations and comprehensive income	1
Unaudited consolidated interim statements of financial position	2
Unaudited consolidated interim statements of changes in shareholders' equity	3
Unaudited consolidated interim statements of cash flows	4
Notes to the unaudited condensed consolidated interim financial statements	5-16

MAV Beauty Brands Inc.

Unaudited consolidated interim statements of operations and comprehensive income

(Expressed in thousands of US dollars unless otherwise noted, unaudited)

	Notes	**Three months ended September 30, 2021**	Three months ended September 30, 2020	**Nine months ended September 30, 2021**	Nine months ended September 30, 2020
		$	$	**$**	$
Revenue	4	**24,739**	31,741	**82,496**	92,761
Cost of sales	7	**14,390**	15,993	**46,869**	48,093
Gross profit		**10,349**	15,748	**35,627**	44,668
Expenses					
Selling and administrative		**7,468**	7,302	**22,860**	23,373
Impairment of goodwill	8	**129,033**	—	**129,033**	—
Amortization and depreciation		**1,102**	1,060	**3,269**	3,128
Interest and accretion	9	**1,481**	1,762	**4,966**	5,580
Foreign exchange loss (gain)		**(82)**	141	**122**	(90)
Integration, restructuring, and other	10	**888**	437	**(2,750)**	3,612
Total expenses		**139,890**	10,702	**157,500**	35,603
Income (loss) before income taxes		**(129,541)**	5,046	**(121,873)**	9,065
Income tax expense (recovery)					
Current		**—**	(24)	**13**	20
Deferred		**(26,395)**	1,511	**(24,392)**	2,647
		(26,395)	1,487	**(24,379)**	2,667
Net income (loss) for the period		**(103,146)**	3,559	**(97,494)**	6,398
Other comprehensive income (loss), net of tax					
Unrealized change in fair value - cash flow hedge		**123**	144	**516**	(1,800)
Comprehensive income (loss) for the period		**(103,023)**	3,703	**(96,978)**	4,598
Earnings per common share					
Basic	5	**(2.81)**	0.10	**(2.65)**	0.17
Diluted	5	**(2.81)**	0.08	**(2.65)**	0.15
Weighted average number of common shares outstanding					
Basic	5	**36,764,669**	36,764,669	**36,764,669**	36,764,669
Diluted	5	**42,454,182**	42,473,755	**42,603,665**	42,460,635

The accompanying notes are an integral part of the unaudited condensed consolidated interim financial statements.

MAV Beauty Brands Inc.

Unaudited consolidated interim statements of financial position

(Expressed in thousands of US dollars unless otherwise noted, unaudited)

	Notes	As at September 30, 2021	As at December 31, 2020
		$	$
Assets			
Current assets			
Cash		**11,859**	19,074
Trade and other receivables	6	**17,395**	20,192
Inventories	7	**37,380**	36,205
Prepaid expenses		**2,931**	3,143
Total current assets		**69,565**	78,614
Non-current assets			
Property and equipment		**3,053**	3,157
Deferred tax asset		**12,291**	—
Right-of-use asset		**2,533**	2,766
Intangible assets	8	**158,721**	161,141
Goodwill	8	**51,722**	180,755
Total assets		**297,885**	426,433
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		**17,867**	18,524
Current portion of deferred consideration	3	**868**	2,434
Current portion of lease liability		**249**	242
Total current liabilities		**18,984**	21,200
Non-current liabilities			
Deferred tax liability		**3,526**	15,444
Deferred consideration	3	**—**	7,339
Derivative financial liabilities	11	**1,265**	1,964
Lease liability		**2,792**	3,034
Borrowings	11	**132,123**	142,001
Total liabilities		**158,690**	190,982
Shareholders' equity			
Share capital	12	**230,354**	230,354
Accumulated other comprehensive loss		**(947)**	(1,463)
Equity-settled employee benefits reserve	13	**8,737**	8,015
Deficit		**(98,949)**	(1,455)
Total shareholders' equity		**139,195**	235,451
Total liabilities and shareholders' equity		**297,885**	426,433

The accompanying notes are an integral part of the unaudited condensed consolidated interim financial statements.

MAV Beauty Brands Inc.

Unaudited consolidated interim statements of changes in shareholders' equity

(Expressed in thousands of US dollars unless otherwise noted, unaudited)

	Notes	Share capital	Equity-settled employee benefits reserve	Accumulated other comprehensive income (loss)	Deficit	Total shareholders' equity
		$	$	$	$	$
Opening balance as at January 1, 2020		230,354	6,009	162	(7,961)	228,564
Net income for the period		—	—	—	6,398	6,398
Other comprehensive loss, net of tax		—	—	(1,800)	—	(1,800)
Recognition of share-based payments	13	—	1,692	—	—	1,692
Balance as at September 30, 2020		230,354	7,701	(1,638)	(1,563)	234,854
Opening balance as at January 1, 2021		**230,354**	**8,015**	**(1,463)**	**(1,455)**	**235,451**
Net loss for the period		**—**	**—**	**—**	**(97,494)**	**(97,494)**
Other comprehensive income, net of tax		**—**	**—**	**516**	**—**	**516**
Recognition of share-based payments	13	**—**	**722**	**—**	**—**	**722**
Balance as at September 30, 2021		**230,354**	**8,737**	**(947)**	**(98,949)**	**139,195**

The accompanying notes are an integral part of the unaudited condensed consolidated interim financial statements.

MAV Beauty Brands Inc.

Unaudited consolidated interim statements of cash flows

(Expressed in thousands of US dollars unless otherwise noted, unaudited)

	Notes	**Three months ended September 30, 2021**	Three months ended September 30, 2020	**Nine months ended September 30, 2021**	Nine months ended September 30, 2020
		$	$	**$**	$
Operating activities					
Net income (loss) for the period		**(103,146)**	3,559	**(97,494)**	6,398
Adjustments to net income for non-cash items					
Impairment of goodwill	8	**129,033**	—	**129,033**	—
Amortization and depreciation		**1,102**	1,060	**3,269**	3,128
Amortization of deferred financing costs	9, 11	**173**	150	**474**	454
Accretion of deferred consideration	3, 9	**7**	286	**576**	726
Remeasurement of deferred consideration	3	**—**	—	**(6,957)**	1,425
Accretion of lease liability	9	**47**	49	**145**	146
Share-based payments	13	**184**	417	**722**	1,692
Unrealized foreign exchange gain		**(33)**	(22)	**(21)**	(325)
Deferred income taxes		**(26,395)**	1,511	**(24,392)**	2,647
Cash flow from operations		**972**	7,010	**5,355**	16,291
Net changes in non-cash working capital	14	**926**	(2,335)	**818**	(6,576)
Cash provided by operating activities		**1,898**	4,675	**6,173**	9,715
Investing activities					
Purchase of property and equipment		**(138)**	(295)	**(512)**	(1,114)
Repayment of deferred consideration	3	**—**	—	**(2,524)**	(5,536)
Business acquisitions	3	**—**	—	**—**	1,000
Cash used in investing activities		**(138)**	(295)	**(3,036)**	(5,650)
Financing activities					
Drawdown of revolving facilities	11	**—**	—	**—**	9,500
Repayment of borrowings and revolving facilities	11	**(7,500)**	(5,000)	**(10,000)**	(5,000)
Deferred financing costs	11	**(230)**	—	**(352)**	—
Cash provided by (used in) financing activities		**(7,730)**	(5,000)	**(10,352)**	4,500
Increase (decrease) in cash		**(5,970)**	(620)	**(7,215)**	8,565
Cash, beginning of period		**17,829**	14,857	**19,074**	5,672
Cash, end of period		**11,859**	14,237	**11,859**	14,237
Supplemental cash flow information	14				

The accompanying notes are an integral part of the unaudited condensed consolidated interim financial statements.

1. Description of the business

MAV Beauty Brands Inc. (formerly known as MAC Topco Holdings Inc.) (the "Company") is a global personal care company selling hair care, body care and beauty products in Canada, the United States, and internationally. The Company offers various products through retail partners and distributors. The Company is headquartered at 100 New Park Place, Suite 810, Vaughan, Ontario, Canada, L4K 0H9.

The Company's common shares are listed on the Toronto Stock Exchange ("TSX") under the stock symbol "MAV".

The Company's fiscal year end is December 31. These unaudited condensed consolidated interim financial statements ("Interim Financial Statements") include the accounts and results of the Company and its wholly owned subsidiaries.

2. Significant accounting policies

Basis of presentation

The Interim Financial Statements are prepared in accordance with IAS 34 – *Interim Financial Reporting* ("IAS 34"). These Interim Financial Statements do not include all the information required for annual financial statements and should be read in conjunction with the Company's annual consolidated financial statements as at and for the year ended December 31, 2020. These Interim Financial Statements and the accompanying notes have been prepared using the accounting policies described in Note 3 to the 2020 annual consolidated financial statements.

The Interim Financial Statements were approved by the Board of Directors on November 5, 2021.

Basis of consolidation

The Interim Financial Statements incorporate the financial information of the Company and the subsidiaries over which the Company has control. An entity is controlled when the Company has the ability to direct the relevant activities of the entity, has exposure or rights to variable returns from its involvement with the entity and is able to use its power over the entity to affect its returns from the entity.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control as prescribed by IFRS 10 – *Consolidated Financial Statements*.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the unaudited consolidated interim statements of operations and comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Company's accounting policies.

All intercompany assets and liabilities, equity, income, expenses and cash flows are eliminated in full on consolidation.

2. Significant accounting policies (continued)

Use of estimates and judgments

The preparation of these Interim Financial Statements in conformity with IAS 34 requires management to make estimates, judgments and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities at the date of the Interim Financial Statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Estimates are based on management's best knowledge of current events and actions the Company may undertake in the future. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Valuation of deferred consideration

During the nine months ended September 30, 2021, Company has revised certain estimates with respect to the deferred consideration that arose as part of the acquisition of The Mane Choice. The Company has reassessed unobservable (Level 3) inputs used for the fair value measurement, including: (i) the estimated amount and timing of the projected cash flows on which the contingency is based; and (ii) the risk-adjusted discount rate used to determine the present value of those cash flows. As a result of changes in the expected amounts and timing of projected cash flows, the Company has derecognized deferred consideration in the amount of $6,957, recorded in integration, restructuring, and other in the consolidated statements of operations and comprehensive income.

Global pandemic

In early 2020, the novel coronavirus disease ("COVID-19") was confirmed in multiple countries throughout the world and on March 11, 2020, the World Health Organization declared a global pandemic.

The COVID-19 pandemic continued to impact the global economy in the third quarter of 2021. While vaccination rates have increased in Canada and the US and significant progress has been made toward the reopening of retail stores, there is continuing risk that COVID-19 and variants of concern will continue to impact the Company's results of operations or financial condition. Any prolonged store, warehousing or manufacturing disruptions or closures could significantly impact the Company's ability to service its customers.

In addition, cost inflation within the Company's supply chain remains at strongly elevated levels, and further cost increases could have a significant impact on the Company's cost of sales and gross profit margins. The Company is actively assessing measures to mitigate these costs and operational disruptions, including operational efficiencies, increasing inventory of core products and pricing action. Any reintroduction of emergency measures resulting in reduced foot traffic or store closures could result in lower sell-through of our products and decreased and delayed retailer replenishment, negatively impacting the Company's revenues.

The Company has also implemented safety protocols to ensure the health and wellness of its employees and business partners. The Company continues to discourage non-essential travel for business and prioritizes a hybrid model to limit the number of individuals on premises.

(Expressed in thousands of US dollars except for share and per share amounts unless otherwise noted)

3. Business combinations

Acquisition in 2019

The Mane Choice

On November 12, 2019, the Company acquired 100% of the outstanding units of The Mane Choice Hair Solutions LLC ("The Mane Choice"), a personal care product company, for total consideration of $46,391. The consideration includes cash of $28,058, plus 2,463,963 exchangeable shares in the amount of $9,295, plus an earnout based on operating profit and revenue from continuing and new business in the amount of $10,038, less settlement of certain working capital accounts in the amount of $1,000, received in the second quarter of 2020.

Deferred consideration

In 2021, the Company repaid $2,524 of deferred consideration in the first quarter, of which $1,649 was for Cake and $875 was for The Mane Choice. In 2020, the Company paid $1,536 of deferred consideration in the first quarter for Cake, and $4,000 in the second quarter for The Mane Choice.

During the nine months ended September 30, 2021, as a result of changes in the expected amounts and timing of projected cash flows, the Company has derecognized deferred consideration in the amount of $6,957, recorded in integration, restructuring, and other in the consolidated statements of operations and comprehensive income.

4. Segment information

The Company has one reportable and operating segment, which provides personal care products to consumers via retailers and distributors, and this single reportable segment derives its revenue from the sale of such products.

The Company operates in two principal geographical areas, Canada/United States of America ("US"), and International ("International"), which represents all markets outside of Canada and the US.

The Company's revenue from external customers by location and information about its non-current assets by location of assets are detailed below:

	Revenue from external customers		Revenue from external customers	
	Three months ended September 30, 2021	Three months ended September 30, 2020	**Nine months ended September 30, 2021**	Nine months ended September 30, 2020
	$	$	**$**	$
Canada/US	**22,880**	30,038	**77,122**	88,301
International	**1,859**	1,703	**5,374**	4,460
	24,739	31,741	**82,496**	92,761

(Expressed in thousands of US dollars except for share and per share amounts unless otherwise noted)

4. Segment information (continued)

	Property and equipment	
	As at September 30, 2021	As at December 31, 2020
	$	$
Canada/US	**3,053**	3,157
International	**—**	—
	3,053	3,157

The Company's goodwill and intangible assets are common across all locations. Therefore, management does not classify goodwill and intangible assets on a location basis.

5. Earnings per share

Basic earnings per share is computed by dividing the net income available to common shareholders by the weighted average number of shares outstanding during the reporting period. Diluted earnings per share is computed similarly to basic earnings per share except that the weighted average number of shares outstanding is increased to include exchangeable shares, proportionate voting shares and additional shares for the assumed exercise of share options, if dilutive.

The weighted average number of shares is calculated by assuming that outstanding conversions were exercised and that the proceeds from such exercises were used to acquire common shares at the average market price during the three and nine months ended September 30, 2021.

	Three months ended September 30, 2021	Three months ended September 30, 2020	**Nine months ended September 30, 2021**	Nine months ended September 30, 2020
	#	#	**#**	#
Number of shares				
Weighted number of common shares used for basic earnings per share	**36,764,669**	36,764,669	**36,764,669**	36,764,669
Common shares deemed to be issued in respect of share-based payments	**47,550**	67,123	**197,033**	54,003
Weighted number of exchangeable shares	**2,463,963**	2,463,963	**2,463,963**	2,463,963
Weighted number of proportionate voting shares	**3,178,000**	3,178,000	**3,178,000**	3,178,000
Weighted average number of shares used in diluted earnings per share	**42,454,182**	42,473,755	**42,603,665**	42,460,635

(Expressed in thousands of US dollars except for share and per share amounts unless otherwise noted)

6. Trade and other receivables

Trade and other receivables consist of the following:

	September 30, 2021	December 31, 2020
	$	$
Trade and other receivables	**17,455**	20,103
Government remittances receivable	**260**	579
Provision for expected credit losses	**(320)**	(490)
	17,395	20,192

7. Inventories

Inventories consist of the following:

	September 30, 2021	December 31, 2020
	$	$
Raw materials	**8,877**	6,849
Finished goods	**30,238**	30,043
Provision for inventory obsolescence	**(1,735)**	(687)
	37,380	36,205

Inventories are carried at the lower of cost and net realizable value. During the three and nine months ended September 30, 2021, inventories recognized as an expense within cost of sales amounted to $12,142 and $40,043, respectively (for the three and nine months ended September 30, 2020, $13,622 and $41,492, respectively).

8. Goodwill and intangible assets

Impairment

The Company assesses whether there is an indication that goodwill and indefinite life intangible assets are impaired at every interim period. This assessment includes a review of the Company's current and expected performance, market conditions and trends, the timing and impact of external risks, and changes to the Company's share price and market capitalization.

If any indication of impairment exists, the Company estimates the recoverable amount of the asset or cash-generating unit ("CGU") to which the asset relates to determine the extent of any impairment loss. The recoverable amount is the higher of an asset's or CGU's fair value less costs of disposal and its value in use ("VIU") to the Company. If the recoverable amount of an asset or a CGU is estimated to be less than its carrying amount, the carrying amount is reduced to its recoverable amount. An impairment loss is recognized immediately in the unaudited condensed consolidated interim statements of operations and comprehensive income.

(Expressed in thousands of US dollars except for share and per share amounts unless otherwise noted)

8. Goodwill and intangible assets

Impairment (continued)

During the three months ended September 30, 2021, the Company noted the following:

- The Company's share price has declined from CAD $4.75 to CAD $2.18 between June 30 to September 30, 2021.
- The Company revised its internal revenue outlook, taking into account the revenue decline in the third quarter of 2021 compared to the comparative period in 2020, the latest in-store retail consumption data, and retailer planogram decisions for 2022.
- Supply chain input costs are increasing faster than previously forecasted, and the Company is undertaking several initiatives to mitigate the impact on gross profit margins.

As a result of these factors, the Company has determined that an indication of impairment existed as of September 30, 2021. The Company operates as a single CGU and therefore all goodwill and intangible assets have been tested at the Company level.

In assessing goodwill and indefinite-life intangible assets for impairment, the Company compared the aggregate recoverable amount of the assets included in the CGU to their respective carrying amounts.

The recoverable amount of the CGU was based on VIU, estimated using discounted cash flows. The fair value measurement was categorized as a Level 3 fair value based on the inputs in the valuation technique used.

The VIU calculation for the recoverable amount of the CGU includes estimates about its future financial performance based on cash flows covering a period of five years with a terminal rate. Key assumptions used in the VIU calculations are the discount rate applied and the long-term growth rate of net operating cash flows. In determining these assumptions, management has taken into consideration the current economic climate and its resulting impact on expected growth and discount rates. In determining the discount rate, management uses the Company's weighted average cost of capital as a starting point and applies adjustments to take into account specific tax rates, geographical risk and any additional company specific risks. The cash flow projections reflect management's expectations of the operating performance of the CGU and growth prospects in the CGU's market. Impairment losses relating to goodwill cannot be reversed in future periods.

The key assumptions used in the estimation of the recoverable amount are set below. The values assigned to the key assumptions represent management's assessment of the future trends in the industry and have been based on information from both external and internal resources.

After-tax discount rate	12.6%
Terminal growth rate	2%
Earnings growth rate	12.2% to 27.6%

The estimated recoverable amount of the CGU was $129,033 lower than the carrying amount, resulting in an impairment of goodwill as recorded the consolidated statements of operations and comprehensive income.

(Expressed in thousands of US dollars except for share and per share amounts unless otherwise noted)

9. Interest and accretion

Interest and accretion consist of the following:

	Three months ended September 30, 2021	Three months ended September 30, 2020	**Nine months ended September 30, 2021**	Nine months ended September 30, 2020
	$	$	**$**	$
Interest on borrowings and revolving facilities	**1,254**	1,277	**3,771**	4,254
Amortization of deferred financing costs	**173**	150	**474**	454
Accretion of deferred consideration	**7**	286	**576**	726
Accretion of lease liability	**47**	49	**145**	146
	1,481	1,762	**4,966**	5,580

10. Integration, restructuring, and other

Integration, restructuring, and other consist of the following:

	Three months ended September 30, 2021	Three months ended September 30, 2020	**Nine months ended September 30, 2021**	Nine months ended September 30, 2020
	$	$	**$**	$
Integration	**112**	203	**777**	437
Restructuring	**470**	128	**1,586**	1,293
Acquisition related (Note 3)	**—**	—	**(6,957)**	1,425
Other	**306**	106	**1,844**	457
	888	437	**(2,750)**	3,612

During the nine months ended September 30, 2021, the Company incurred restructuring and other costs in the amount of $1,114 that were paid or payable to certain directors, officers, and former officers of the Company (nine months ended September 30, 2020 - $1,019 of restructuring costs paid or payable to a director and former officer of the Company).

(Expressed in thousands of US dollars except for share and per share amounts unless otherwise noted)

11. Borrowings

	Section	September 30, 2021	December 31, 2020
		$	$
Non-revolving term loan	(a)	**128,500**	133,500
Revolving credit facility	(a)	**5,000**	10,000
		133,500	143,500
Deferred financing fees		**(1,377)**	(1,499)
Total borrowings		**132,123**	142,001

(a) Non-revolving term loan and revolving credit facility

On July 10, 2018, concurrent with the IPO, the Company settled its term loans, revolving commitment facility, senior subordinate notes and promissory note and entered into a new credit facility (the "New Credit Facility"). The New Credit Facility includes (i) a revolving credit facility in the aggregate principal amount of $20,000; (ii) a non-revolving term loan credit facility in the aggregate amount of up to $107,500; and (iii) an accordion feature in the amount of $50,000 for working capital and general corporate purposes. The New Credit Facility has no fixed repayment terms and will mature on July 10, 2023. Both the term loan and revolving credit facility bear interest at LIBOR plus the applicable margin of 3.50% per annum.

During the year ended December 31, 2019, and in connection with The Mane Choice acquisition, the Company extended and amended its non-revolving term loan credit facility to borrow an additional $31,000 with substantially similar terms and conditions, resulting in a combined facility of $138,500.

During the nine months ended September 30, 2021, the Company incurred deferred financing charges in the amount of $352 as a result of two amendments made to its credit facility, dated June 11, 2021 and September 30, 2021. The Company must satisfy certain financial covenants as defined by the agreement relating to the New Credit Facility. As at September 30, 2021, the Company was in compliance with these covenants.

The Company uses interest rate swaps as a cash flow hedging instrument to mitigate interest rate risk of its borrowings. The interest rate swaps are initially recognized at fair value on the date on which a contract is entered and are subsequently remeasured at fair value. The swaps are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative. As at September 30, 2021, the Company had derivative financial liabilities of $1,265 (December 31, 2020 – $1,964).

As part of the credit facility amendment dated September 30, 2021, the Company will commence quarterly principal repayments on its non-revolving term loan facility at a rate of 5% per annum, with the first payment due at the end of the first quarter of 2022.

12. Share capital

Authorized

In connection with and immediately prior to the closing of the IPO, the Company implemented the following pre-closing capital changes: (i) the share capital was amended such that it comprised an unlimited number of common shares, an unlimited number of Proportionate Voting Shares and an unlimited number of preferred shares, issuable in series; (ii) all of the then-issued and outstanding shares of the Company were exchanged for newly authorized Shares; (iii) all of the issued and outstanding common shares were consolidated on a 4.7206-for-one basis; (iv) 3,178,000 of the common shares retained by a related party, Bock Capital EU Luxembourg MAC S.À R.L., were exchanged for Proportionate Voting Shares on a 1,000-to-one basis; (v) each of the then-outstanding options to acquire shares of the Company under the Company's legacy option plan was consolidated on a 4.7206-for-one basis and exercisable for common shares at a post-consolidation exercise price; (vi) all classes of shares included in the authorized share capital prior to such amendments were repealed from the Articles; and (vii) the Company amalgamated with a Canadian subsidiary by way of a short-form vertical amalgamation under the *Business Corporations Act* (British Columbia). Immediately prior to closing the IPO, the Company had 28,577,169 common shares and 3,178 Proportionate Voting Shares outstanding.

Issued

As at September 30, 2021 and December 31, 2020, the Company had 36,764,669 common shares, 3,178 Proportionate Voting Shares and 2,463,963 exchangeable shares issued and outstanding.

13. Equity-settled employee benefits reserve

The Company has a legacy Share Option Plan and an omnibus long-term incentive plan (the "LTIP") (collectively, the "Plans") applicable to executive officers, employees, consultants and members of the Board of Directors effective January 20, 2017. The maximum number of common shares that may be reserved for issuance under the Plans shall not exceed 10% of the total issued and outstanding common shares (assuming the conversion of all issued and outstanding Proportionate Voting Shares to common shares) from time to time. The option exercise price is the fair market value (or greater) of the common shares of the Company at the date of granting the options as determined and approved by the Board of Directors in accordance with the Plans. Option terms shall be no more than 10 years from the date of option grant.

Options generally vest over a 60-month period from the date of grant, with 20% vesting on the 12-month anniversary of the date of grant, and an additional 5% of the options vesting on each subsequent quarter. However, options granted in 2020 and 2021 vest 25% on each anniversary date of grant.

In connection with the issuance of options to eligible participants, the Company recorded equity-settled employee benefits of $722 for the nine months ended September 30, 2021 ($1,692 for the nine months ended September 30, 2020) to reflect the share-based compensation expense relating to the Company's Plans, which is included in selling and administrative expense.

(Expressed in thousands of US dollars except for share and per share amounts unless otherwise noted)

13. Equity-settled employee benefits reserve (continued)

The following table summarizes the movement in options and the weighted average exercise price of options for the nine months ended September 30, 2021:

	Number of options	Average exercise price
	#	CAD$
Options outstanding as at December 31, 2020	3,830,341	9.86
Grants	**415,543**	**2.80**
Forfeited	**(317,582)**	**5.23**
Options outstanding as at September 30, 2021	**3,928,302**	**9.49**

The assumptions used to measure the fair value of options granted during the nine months ended September 30, 2021 under the Black Scholes option pricing model were as follows:

Expected option life (years)	5
Volatility	70.3%
Risk-free interest rate	0.81%

The following table summarizes information about share options outstanding and exercisable as at September 30, 2021:

	Number of options	Weighted average remaining life (in years)	Number exercisable
	#		#
Exercise price (in CAD)			
2.00 to 4.72	**1,581,374**	**2.69**	**744,084**
6.23 to 7.79	**168,348**	**1.65**	**128,315**
9.44 to 12.46	**211,820**	**0.61**	**191,784**
14.00	**1,721,170**	**1.75**	**1,032,702**
14.16 to 23.37	**245,590**	**0.75**	**213,734**
	3,928,302	**2.00**	**2,310,619**

13. Equity-settled employee benefits reserve (continued)

The Company also has a Deferred Share Unit ("DSU") Program, which was adopted following the completion of the IPO for non-employee board members. Each eligible director receives a portion of his or her annual director retainer in DSUs.

The grant of DSUs does not entitle any eligible director to dividends or other distributions on the Company's common shares, or to exercise voting rights or any other rights attaching to the ownership of the common shares, provided that in the event that dividends become payable on the common shares after the date of grant, DSUs will entitle the non-employee director to dividend share units in the form of additional DSUs. DSUs vest when granted but are not redeemable for cash settlement until the eligible director ceases to be a member of the Board. DSUs are granted quarterly and the Company is required to record a liability for the potential future settlement of the DSUs at each reporting date by reference to the fair value of the liability. The Company records grants and changes in value of the DSUs in selling and administrative expense. As at September 30, 2021, there were 148,856 DSUs issued and outstanding (December 31, 2020 – 109,569).

The Company is also entitled to issue restricted stock units ("RSUs") under the LTIP. Each RSU entitles the grantee to acquire common shares at a purchase price (which may be zero) subject to any terms and conditions, including time and/or performance vesting conditions, determined by the Board of Directors. The grant of RSUs does not entitle the grantee to dividends or other distributions on the Company's common shares, or to exercise voting rights or any other rights attaching to the ownership of the common shares, provided that in the event that dividends become payable on the common shares after the date of grant, the RSUs will entitle the grantee to dividend share units in the form of additional RSUs, as applicable. During the three months ended September 30, the Company issued 82,690 RSUs to certain officers of the Company. In total, as at September 30, 2021, the Company had 87,148 RSUs outstanding that cliff vest on the date that is three years from the date of grant.

Additionally, the Company is entitled to issue performance share units ("PSUs") under the LTIP. The terms and conditions, including time and/or performance vesting conditions, are determined by the Board of Directors. During the three months ended September 30, 2021, the Company granted 488,122 PSUs to certain officers of the Company, which reflected the total number of PSUs outstanding as at September 30, 2021. The PSUs entitle the grantee to a variable number of common shares, ranging from 0% to 200% of the number of PSUs, depending on the Company's share price three years from the date of the grant.

During the three months ended September 30, 2021, the Company has entered an arrangement with an officer of the Company whereby the Company would issue 200,000 RSUs that cliff vest one year from the date of the grant upon the purchase of 100,000 shares of the Company in the open market.

(Expressed in thousands of US dollars except for share and per share amounts unless otherwise noted)

14. Supplemental cash flow information

The change in non-cash working capital items comprises the following:

	Three months ended September 30, 2021	Three months ended September 30, 2020	**Nine months ended September 30, 2021**	Nine months ended September 30, 2020
	$	$	**$**	$
Decrease (increase) in assets				
Trade and other receivables	**3,357**	(2,511)	**2,797**	(1,607)
Inventories	**(844)**	(1,330)	**(1,175)**	(5,132)
Prepaid expenses	**332**	558	**212**	386
	2,845	(3,283)	**1,834**	(6,353)
Increase (decrease) in liabilities				
Accounts payable and accrued liabilities	**(1,919)**	948	**(1,016)**	(223)
	926	(2,335)	**818**	(6,576)

The supplemental cash flow information comprises the following:

	Three months ended September 30, 2021	Three months ended September 30, 2020	**Nine months ended September 30, 2021**	Nine months ended September 30, 2020
	$	$	**$**	$
Interest paid	**1,254**	1,277	**3,771**	4,254

15. Contingencies

In the normal course of business activities, the Company is subject to a number of claims and legal actions that may be made by customers, suppliers or others. The Company is actively defending these actions, and management believes the possibility of any outflow in settlement is remote and thus no provisions have been recognized.

16. Comparative figures

Certain comparative figures have been reclassified to conform with the financial presentation adopted for the current period.