MAV BEAUTY BRANDS

MAV BEAUTY BRANDS INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE QUARTER ENDED JUNE 30, 2022

August 10, 2022

The following Management's Discussion and Analysis ("**MD&A**") is prepared as of August 10, 2022 and provides information concerning MAV Beauty Brands Inc.'s ("**MAV Beauty Brands**", the "**Company**", "**we**" or "**us**") financial condition and results of operations. This MD&A should be read in conjunction with our unaudited condensed consolidated interim financial statements, including the related notes thereto, for the three and six months ended June 30, 2022, our annual audited consolidated financial statements, including the related notes thereto, for the year ended December 31, 2021, and our management's discussion and analysis for the year ended December 31, 2021 ("**2021 Annual MD&A**"). This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results, performance and achievements could differ materially from those implied by these forward-looking statements as a result of various factors, particularly under "Forward-Looking Information" and "Risk Factors".

Non-IFRS Measures

This MD&A makes reference to certain non-IFRS measures. These measures are not recognized measures under International Financial Reporting Standards ("**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 those IFRS measures by providing further understanding of our results of operations from management's perspective. Accordingly, these measures should not be considered in isolation nor as a substitute for analysis of our financial information reported under IFRS. We use non-IFRS measures including "EBITDA", "Adjusted EBITDA", "Adjusted Net Income", "Free Cash Flow", "Adjusted Free Cash Flow", "Net Debt" and "Net Debt to Adjusted EBITDA". These non-IFRS measures are used to provide investors with supplemental measures of our operating performance and thus highlight trends in our core business that may not otherwise be apparent when relying solely on IFRS financial measures. We also believe that securities analysts, investors and other interested parties frequently use non-IFRS measures in the evaluation of issuers. Our management also uses non-IFRS measures in order to facilitate operating performance comparisons from period to period, to prepare annual operating budgets and to determine components of management compensation. For definitions and reconciliations of these non-IFRS measures to the relevant reported measures, please see "How We Assess the Performance of Our Business" and "Non-IFRS Measures" sections of this MD&A.

Forward-Looking Information

Some of the information contained in this MD&A contains forward-looking information. This information may relate to anticipated events or results and include, but are not limited to, expectations regarding industry trends, our growth strategies, including product innovation and marketing and the anticipated benefits thereof, and focusing on higher-performing core products and the anticipated benefits thereof, the impacts of the ongoing COVID-19 pandemic on our business, the Company's ability to mitigate inflation in our costs and supply chain challenges, the Company's ability to meet future operating expenses, capital expenditures and debt service requirements, the Company's ability to identify and execute on price increase opportunities and cost saving initiatives, the Company's exposure to other currencies, and other statements that are not historical facts. Particularly, information regarding our expectations of future results, targets, performance achievements, prospects or opportunities is forward-looking information. As the context requires, this may include certain targets as disclosed in the prospectus for our initial public offering, which are based on the factors and assumptions, and subject to the risks, as set out therein and herein. Often but not always, forward-looking information can be identified by the use of forward-looking terminology such as “may” “will”, “expect”, “believe”, “estimate”, “plan”, “could”, “should”, “would”, “outlook”, “forecast”, “anticipate”, “foresee”, “continue” or the negative of these terms or variations of them or similar terminology. This information is based on management’s reasonable assumptions and beliefs in light of the information currently available to us and is made as of the date of this MD&A.

However, we do not undertake to update any such forward-looking information whether as a result of new information, future events or otherwise, except as required under applicable securities laws in Canada. Actual results and the timing of events may differ materially from those anticipated in the forward-looking information as a result of various factors, including those described in “Risk Factors”. Additional risks and uncertainties are discussed in the Company’s materials filed with the Canadian securities regulatory authorities from time to time, including the Company’s annual information form dated March 23, 2022 for the fiscal year ended December 31, 2021 (“**AIF**”), a copy of which is available under the Company’s profile on SEDAR at www.sedar.com. These factors are not intended to represent a complete list of the factors that could affect us; however, these factors should be considered carefully.

We caution that the list of risk factors and uncertainties is not exhaustive and other factors could also adversely affect our results. Readers are urged to consider the risks, uncertainties and assumptions carefully in evaluating the forward-looking information and are cautioned not to place undue reliance on such information. See “Risk Factors” for a discussion of the uncertainties, risks and assumptions associated with these statements.

The purpose of the forward-looking statements is to provide the reader with a description of management’s current expectations regarding the Company’s financial performance and they may not be appropriate for other purposes; readers should not place undue reliance on forward-looking statements made herein. To the extent any forward-looking information in this MD&A constitutes future-oriented financial information or financial outlook, within the meaning of applicable securities laws, such information is being provided to demonstrate the potential of the Company and readers are cautioned that this information may not be appropriate for any other purpose. Future-oriented financial information and financial outlook, as with forward-looking information generally, are based on current assumptions and subject to risks, uncertainties and other factors. Furthermore, unless otherwise stated, the forward-looking statements contained in this MD&A are made as of the date of this MD&A, and we have no intention and undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by applicable securities laws. The forward-looking statements contained in this MD&A are expressly qualified by this cautionary statement.

Basis of Presentation

Our unaudited condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standards (“**IAS**”) 34 – Interim Financial Reporting, using the accounting policies described in Note 3 to the annual audited consolidated financial statements, including the related notes thereto, for the year ended December 31, 2021. These financial statements are presented in thousands of U.S. dollars, and accordingly, unless otherwise noted herein, all financial information in this MD&A is presented in thousands of U.S. dollars. In this MD&A, references to North America refer to Canada and the United States.

All references in this MD&A to “**Q2 2022**” and “**YTD Q2 2022”** are to the three and six month period ended June 30, 2022, “**Q1 2021**” and “**YTD Q2 2021”** are to the three and six month period ended June 30, 2021, and “**Fiscal 2021**” are to the fiscal year ended December 31, 2021.

On November 12, 2019, the Company acquired all of the membership interests of The Mane Choice Hair Solution, LLC. (“**The Mane Choice**”). In this MD&A, this acquisition is referred to as the “**2019 Acquisition**”.

The unaudited condensed consolidated interim financial statements and the accompanying notes for the three and six month period ended June 30, 2022 and this MD&A were reviewed and approved by the Company’s Board of Directors (the “**Board**”) on August 10, 2022.

Overview

MAV Beauty Brands is a global personal care company focused on acquiring independent brands and helping these brands to scale, and win market share through product innovation, marketing and expanded distribution, Today, MAV Beauty Brands markets a diversified portfolio of four complementary personal care brands – Marc Anthony True Professional ("Marc Anthony"), Renpure, Cake Beauty and The Mane Choice – offering premium quality hair care, face and body care beauty products. These products are sold in over 25 countries around the world and in many major retailers.

MAV Beauty Brands' diverse collection of category leading brands are distributed in some of the largest, most attractive and historically recession-resistant categories of the personal care industry. Within hair care and body care, our brands complement each other by targeting different segments. Our brands target a wide range of consumers and trends, while the distinct appeal of each brand allows them to be stocked on the same shelf without directly competing with each other. Our core brands include Marc Anthony, which focuses on professional quality products that deliver hair care solutions at an affordable price; Renpure, a clean beauty personal care brand focused on offering affordable and efficacious hair and personal products for the whole family; Cake Beauty, an emerging vegan, cruelty-free naturally luxe lifestyle brand; and The Mane Choice, a brand focused on innovative science-based hair products for wavy to textured hair.

Within hair care, our largest served category today, we utilize a strategy that targets consumers looking for professional-quality products with comparable performance to Salon & Luxury products. This strategy provides products that appeal to a large number of consumers while generating attractive shelf space economics for our retail partners.

We have strong and longstanding relationships with leading retailers, as well as distributors that sell our products internationally.

Financial Highlights

We refer the reader to the section entitled "How We Assess the Performance of Our Business" of this MD&A for the definition of the items discussed below and, when applicable, to the section entitled "Non-IFRS Measures" for reconciliations of non-IFRS measures with the most directly comparable IFRS measure.

Q2 2022 Compared to Q2 2021:

Select financial highlights include the following:

- Revenue decreased by 10.4%, or $2.9 million, to $25.4 million in Q2 2022 compared to $28.3 million in Q2 2021.
- Net income decreased by $3.8 million to a net income of $0.3 million in Q2 2022 compared to net income of $4.1 million in Q2 2021, principally as a result of the decrease in revenue and the variance in Integration, restructuring and other compared to Q2 2021.
- Adjusted EBITDA[(2)] decreased by 8.5%, or $0.3 million, to $3.5 million in Q2 2022 from $3.8 million in Q2 2021.
- Adjusted Net Income[(2)] decreased by $0.2 million to $0.5 million in Q2 2022 compared to $0.7 million in Q2 2021.

(in thousands of US dollars) (unaudited)	Q2 2022	Q2 2021	$ Change	% Change
Consolidated statements of operations:				
Revenue [(1)]	**25,373**	**28,332**	**(2,959)**	**(10.4%)**
Cost of sales	**14,616**	**17,433**	**(2,817)**	**(16.2%)**
Gross profit	**10,757**	**10,899**	**(142)**	**(1.3%)**
Expenses				
Selling and administrative [(1)]	**7,622**	**7,244**	**378**	**5.2%**
Amortization and depreciation	**1,097**	**1,088**	**9**	**0.8%**
Interest and accretion	**1,802**	**1,707**	**95**	**5.6%**
Foreign exchange (gain) loss	**(144)**	**71**	**(215)**	**(302.8%)**
Integration, restructuring, and other	**173**	**(4,705)**	**4,878**	**(103.7%)**
	10,550	**5,405**	**5,145**	**95.2%**
Income (loss) before income taxes	**207**	**5,494**	**(5,287)**	**(96.2%)**
Income tax expense (recovery)				
Current	**—**	**(60)**	**60**	**(100.0%)**
Deferred	**(57)**	**1,477**	**(1,534)**	**(103.9%)**
	(57)	**1,417**	**(1,474)**	**(104.0%)**
Net income (loss) for the period	**264**	**4,077**	**(3,813)**	**(93.5%)**
EBITDA [(2)]	**3,106**	**8,289**	**(5,183)**	**(62.5%)**
Adjusted EBITDA [(2)]	**3,477**	**3,799**	**(322)**	**(8.5%)**
Adjusted Net Income [(2)]	**540**	**732**	**(192)**	**(26.2%)**

Note:

(1) Certain comparative figures have been revised to reclassify compliance charges that were previously recorded in selling and administrative expenses to revenue to conform with IFRS 15 and the financial presentation adopted for the current period.

(2) EBITDA, Adjusted EBITDA and Adjusted Net Income are each non-IFRS measures and are not earning measures recognized by IFRS. For definitions and reconciliations of these non-IFRS measures to the relevant recognized IFRS measures, please see "How We Assess the Performance of Our Business" and "Non-IFRS Measures" sections of this MD&A.

YTD Q2 2022 Compared to YTD Q2 2021:

Select financial highlights include the following:

- Revenue decreased by 17.4%, or $9.8 million to $46.5 million in YTD Q2 2022 compared to $56.3 million in YTD Q2 2021.
- Net income decreased by $6.1 million, to $0.4 million in YTD Q2 2022 compared to $5.7 million in YTD Q2 2021, due to the Revenue decrease as well as the variance in Integration, restructuring and other .
- Adjusted EBITDA decreased by 37.9%, or $3.8 million, to $6.4 million in YTD Q2 2022 from $10.2 million in YTD Q2 2021.
- Adjusted Net Income decreased by $2.8 million to $0.6 million in YTD Q2 2022 from $3.4 million in YTD Q2 2021.

(in thousands of US dollars)	**YTD Q2 2022**	**YTD Q2 2021**	**$ Change**	**% Change**
Consolidated statements of operations:				
Revenue [(1)]	**46,510**	**56,330**	**(9,820)**	**(17.4%)**
Cost of sales	**26,436**	**32,479**	**(6,043)**	**(18.6%)**
Gross profit	**20,074**	**23,851**	**(3,777)**	**(15.8%)**
Expenses				
Selling and administrative [(1)]	**14,347**	**13,965**	**382**	**2.7%**
Amortization and depreciation	**2,197**	**2,167**	**30**	**1.4%**
Interest and accretion	**3,493**	**3,485**	**8**	**0.2%**
Foreign exchange (gain) loss	**(76)**	**204**	**(280)**	**(137.3%)**
Integration, restructuring, and other	**788**	**(3,638)**	**4,426**	***(121.7%)***
	20,749	**16,183**	**4,566**	**28.2%**
Income (loss) before income taxes	**(675)**	**7,668**	**(8,343)**	***(108.8%)***
Income tax expense (recovery)				
Current	**—**	**13**	**(13)**	***(100.0%)***
Deferred	**(307)**	**2,003**	**(2,310)**	**(115.3%)**
	(307)	**2,016**	**(2,323)**	**(115.2%)**
Net income (loss) for the period	**(368)**	**5,652**	**(6,020)**	**(106.5%)**
EBITDA [(2)]	**5,015**	**13,320**	**(8,305)**	***(62.3%)***
Adjusted EBITDA [(2)]	**6,350**	**10,232**	**(3,882)**	**(37.9%)**
Adjusted Net Income [(2)]	**626**	**3,351**	**(2,725)**	**(81.3%)**

Note:

(1) Certain comparative figures have been revised to reclassify compliance charges that were previously recorded in selling and administrative expenses to revenue to conform with IFRS 15 and the financial presentation adopted for the current period.

(2) EBITDA, Adjusted EBITDA and Adjusted Net Income are each non-IFRS measures and are not earning measures recognized by IFRS. For definitions and reconciliations of these non-IFRS measures to the relevant recognized IFRS measures, please see "How We Assess the Performance of Our Business" and "Non-IFRS Measures" sections of this MD&A.

Summary of Factors Affecting Performance

In late February 2022, a cyber security breach at our primary third-party logistics partner disrupted our order outflow capabilities. The Company experienced an unfavourable impact on its Q1 2022 revenue, primarily resulting in a shift of shipments into Q2 2022. Mitigation plans were implemented, and the Company returned to pre-incident operating levels in April 2022. See "Risk Factors - A cybersecurity incident could directly or indirectly disrupt our operations and negatively impact our business and relationships with customers and other third parties" in our AIF.

Since the outbreak of COVID-19 and the resulting emergency measures put in place by federal, provincial, state and local governments across North America and internationally, the Company has seen, and expects to continue to see, ongoing disruption of many of the factors affecting our operations and performance. The COVID-19 pandemic continued to impact the global economy in the first two quarters of 2022. While vaccination rates are high in Canada and the US and many of the COVID-19 protection mandates have been lifted or scaled back in most jurisdictions, including restrictions on store capacities, 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. 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 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.

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 continues to take and assess measures to mitigate these costs and operational disruptions, including operational efficiencies, increasing inventory of core products and select pricing actions.

We generally believe that our performance and future success depend on a number of factors that present significant opportunities for us. These factors are also subject to a number of inherent risks and challenges, some of which are discussed below and in the "Risk Factors" sections of this MD&A and the Company's AIF, which is available on SEDAR at www.sedar.com.

Our Brands

MAV Beauty Brands has a diverse collection of authentic and differentiated brands that offer consumers a wide range of high quality and innovative products. Our portfolio, including Marc Anthony, Renpure, Cake Beauty and The Mane Choice, was built to ensure that each of our brands targets a distinct consumer segment with limited competitive overlap. The Company continues to leverage its operating platform and innovation engine to support the success of its brands. Executing on our strategies, we believe our brands have the potential to position MAV Beauty Brands to be a relevant and innovative personal care company in North America. Maintaining, enhancing and growing our brand appeal in North America, as well as in large core markets internationally, is critical to our continued success.

Product Innovation

We believe that product innovation is key to our success. Our innovation cycle and consumer-centric approach provides us with the ability to deliver both successful new products and enhancements to existing products to our consumers, retail partners and distributors with the benefit of feedback and market validation. The inspiration for our new products comes from multiple sources, including beauty experts that are at the forefront of trends and gather real-time insight on evolving consumer preferences, collaboration with key retail and manufacturing partners and company-wide innovation summits. Our collaborative relationships with retail partners enable us to innovate and selectively test new products and product-line extensions prior to executing a more mainstream and comprehensive product launch. Our asset-light business model, through which we outsource production to a diverse set of suppliers with whom we have longstanding relationships, allows us to react quickly to retailer requests, access significant production volume capacity and efficiently manage operations.

Consumer Trends

The global personal care industry is subject to shifts in consumer trends, preferences and consumer spending and our revenue and operating results depend, in part, on continued consumer interest in our existing or new products and our ability to accurately anticipate consumer needs and develop products that meet those needs in a timely manner. We believe that MAV Beauty Brands has a diverse and attractive product portfolio that has an ability to stay on-trend through our ongoing product innovation focus.

Relationships with Retail Partners and Distributors

We build strong and longstanding relationships with our retail partners and international distributors by continually building on our robust pipeline of new products and regularly evaluating potential enhancements to existing product formulations and packaging. This focus on on-trend branded products with compelling quality and value in turn has historically led to increased distribution, enhanced in-store placement and an increasing amount of shelf space with our retail partners.

Our brands are distinctly positioned to enable MAV Beauty Brands to address a wide variety of consumers, personal care trends, and retail partner needs with limited competitive overlap, which is highly valued by our retail partners and international distributors. We have strong and longstanding relationships with leading retailers, as well as distributors that sell our products internationally.

Sourcing, Production and Logistics

We have developed a strong, global supply chain based on long standing relationships. We work closely with our third-party suppliers and logistics partners. Our manufacturing process is centered on close collaboration with a network of leading third-party manufacturers in North America who meet our quality standards. We work with our manufacturers and supply network to achieve high quality, flexible, capital-light and cost-effective structure. The Company continues to monitor its third-party manufacturing operations and adjust to the market, including taking active steps to minimize operational disruptions and increase inventory of core products to ensure supply sufficiency, as well as to identify opportunities for efficiency improvements to mitigate the impact of inflation. We believe that we have identified ample manufacturing capacity as well as back-up capability in the event that one or more suppliers or manufacturers cannot meet our needs.

Competition

The global personal care industry is highly competitive. Our direct competition consists of publicly and privately owned companies, including large global CPG companies as well as other independent brands. We believe that we are able to successfully compete with our peer companies because of our differentiated brands, strong retailer relationships and disciplined and strategic brand building process. Our agile and innovative operating platform is a critical competitive advantage by allowing us to deliver exciting, on-trend products to our retail partners.

Acquisitions

We selectively evaluate entering complementary adjacent high-growth personal care categories by leveraging the strength of our existing brands through product innovation and through the acquisition of independent growth-oriented brands. Our growth strategy through strategic acquisitions is guided by our defined acquisition platform. The platform has a demonstrated track record as an acquirer of choice and an actionable acquisition pipeline that targets in beauty, health and wellness. From 2018 to 2020, we successfully acquired and continue to integrate Renpure, Cake Beauty and The Mane Choice. In pursuing potential acquisition candidates, we will assess several criteria, including: (i) entry or expansion into core or adjacent large and resilient categories; (ii) brand growth in on-trend segments; (iii) addition of strategic capabilities to our operating platform; and (iv) financial attractiveness.

Foreign Exchange

Our financial statements are presented in U.S. dollars, which is the functional currency of the Company and the presentation currency for the consolidated financial statements. Following the Renpure and The Mane Choice Acquisitions, the majority of our revenue is now derived in U.S. dollars. However, a significant portion of our revenue and cost of goods sold is derived in Canadian dollars. We do not hedge our exchange rate exposure through financial instruments as the current balance between our U.S. operations and our Canadian operations creates a partial natural hedge. As our international sales increase, we expect that we will diversify our exposure to other currencies.

Seasonality

The personal care industry is generally not subject to significant seasonal demand fluctuations as consumers tend to purchase hair care and body care products year-round. As a majority of our retail partners reset their inventories in the first quarter of each year, we tend to see an increase in our inventory in the third and fourth quarters as we prepare for such adjustments.

How We Assess the Performance of Our Businesses

In assessing the performance of our business, we consider a variety of financial and operating measures that affect our operating results. We refer to certain key performance indicators used by management and typically used by our competitors in the global personal care industry, certain of which are not recognized under IFRS and may not be comparable to similar measures presented by other companies. See “Non-IFRS Measures”.

Revenue

The Company sells hair care, body care and beauty products to distributors, retailers and directly to consumers. Revenue is measured at the amount of consideration to which the Company expects to be entitled to, net of incentives given to its customers.

For sales to distributors, revenues are recognized when control of the goods has transferred to the distributor, which is dependent on specific shipping terms. Following shipping, the distributor has discretion over the manner of distribution and has the primary responsibility when selling the goods and bears the risks of obsolescence and loss in relation to the goods. A receivable is recognized by the Company when control of the goods has transferred to the distributor as this represents the point in time at which the right to consideration becomes unconditional, as only the passage of time is required before payment is due.

For sales to retailers, revenue is recognized when control of the goods has transferred, which is dependent on the specific shipping terms. Payment of the transaction price is due at the point in which control transfers.

For sales directly to consumers, revenue is recognized when the goods are shipped.

The Company provides sales discounts and reductions through contract price discounts, payment terms, point of sale price reduction arrangements and customer returns and markdowns. If variable, the Company uses its accumulated historical experience to estimate the variable consideration to which it is entitled to, using the expected value method. If considered highly probable that a significant reversal in the cumulative revenue recognized will not occur, such consideration shall be recognized in revenue.

The Company conducts extensive promotional activities, primarily through the use of cooperative advertising, coupons, in-store displays, slotting fees and other funded costs from retail partners. The costs of such activities are recorded as a reduction of the transaction price over the period in which the goods or services are transferred to the customer, to the extent the consideration is not in exchange for a distinct good or service. The Company may also incur compliance charges, including penalties for not shipping on-time and in-full, which are recorded as a reduction of revenue.

Gross profit

Gross profit reflects our revenue less cost of sales. Cost of sales includes the cost of finished goods inventory and costs related to in-bound freight and warehousing. Gross profit margin is gross profit divided by revenue.

Selling and administrative

Our selling and administrative expenses are predominantly comprised of wages and benefits, third-party commissions, outbound freight, travel, marketing costs, accounting fees, legal fees and other expenses related to the corporate infrastructure required to support our business. In Fiscal 2021, we reclassified certain compliance and penalty charges to revenue from selling and administrative expenses, in current and comparative figures.

EBITDA

We define EBITDA as net income (loss) for the period before: (i) income tax expense (recovery); (ii) interest and accretion; and (iii) amortization and depreciation. EBITDA is a non-IFRS measure.

Adjusted EBITDA

We believe Adjusted EBITDA is a useful measure to assess the performance of our Company as it provides meaningful operating results and facilitates period-to-period operating comparisons. We define Adjusted EBITDA as EBITDA before certain expenses, costs, charges or benefits incurred in such period which in management's view are not indicative of continuing operations, including: (i) integration, restructuring, and other costs; (ii) purchase accounting adjustments; (iii) share-based compensation; (iv) impairment of goodwill; and (v) unrealized foreign exchange loss (gain). Adjusted EBITDA is a non-IFRS measure.

Adjusted Net Income

We believe Adjusted Net Income is a useful measure to assess the performance of our Company as it provides meaningful operating results and facilitates period-to-period operating comparisons. We define Adjusted Net Income as net income (loss) as adjusted to add back or deduct, as applicable, certain expenses, costs, charges or benefits incurred in such period which in management's view are not indicative of continuing operations, including: (i) integration, restructuring, and other costs; (ii) purchase accounting adjustments; (iii) share-based compensation; (iv) impairment of goodwill; (v) unrealized foreign exchange loss (gain); and (vi) tax impacts of the aforementioned adjustments (based on annual effective tax rate). Adjusted Net Income is a non-IFRS measure.

Free Cash Flow

Free Cash Flow is calculated as cash provided by operating activities less cash used to purchase property and equipment. Free cash flow is a key metric used by the investing community that measures the Company's ability to repay debt, finance strategic business acquisitions and investments, pay dividends and repurchase shares. Free Cash Flow is a non-IFRS measure.

Adjusted Free Cash Flow

Adjusted Free Cash Flow is calculated as Free Cash Flow adjusted to add back acquisition related costs which are included in cash provided by operating activities. We believe Adjusted free cash flow is a useful measure to assess the Company's ability to repay debt, finance strategic business acquisitions and investments, pay dividends and repurchase shares. It also facilitates period-to-period comparisons. Adjusted Free Cash Flow is a non-IFRS measure.

Net Debt and Net Debt to Adjusted EBITDA

Net Debt is calculated as long-term debt before unamortized deferred financing costs less cash as reported in the consolidated statements of financial position. Net Debt to Adjusted EBITDA is calculated as Net Debt divided by Adjusted EBITDA for the four trailing quarters. Net Debt is an important measure as it reflects the principal amount of debt owing by the Company as at a particular date. Net Debt to Adjusted EBITDA is an important measure of the Company's liquidity and ability to repay debt. Net Debt and Net Debt to Adjusted EBITDA are non-IFRS measures.

Non-IFRS Measures

The following tables provides a reconciliation of consolidated net income to EBITDA, Adjusted EBITDA and Adjusted Net Income for Q2 2022, Q2 2021, YTD Q2 2022, and YTD Q2 2021.

(in thousands of US dollars) (unaudited)		Q2 2022	Q2 2021	YTD Q2 2022	YTD Q2 2021
Consolidated net income (loss):		**264**	**4,077**	**(368)**	**5,652**
Income tax expense		**(57)**	**1,417**	**(307)**	**2,016**
Interest and accretion		**1,802**	**1,707**	**3,493**	**3,485**
Amortization and deprecation		**1,097**	**1,088**	**2,197**	**2,167**
EBITDA		**3,106**	**8,289**	**5,015**	**13,320**
Integration, restructuring, and other	(1)	**173**	**(4,705)**	**788**	**(3,638)**
Share-based compensation	(2)	**338**	**235**	**601**	**538**
Unrealized foreign exchange (gain) loss		**(140)**	**(20)**	**(54)**	**12**
Adjusted EBITDA		**3,477**	**3,799**	**6,350**	**10,232**

(in thousands of US dollars) (unaudited)		Q2 2022	Q2 2021	YTD Q2 2022	YTD Q2 2021
Consolidated net income (loss):		**264**	**4,077**	**(368)**	**5,652**
Integration, restructuring, and other	(1)	**173**	**(4,705)**	**788**	**(3,638)**
Share-based compensation	(2)	**338**	**235**	**601**	**538**
Unrealized foreign exchange loss		**(140)**	**(20)**	**(54)**	**12**
Tax impact of the above adjustments		**(95)**	**1,145**	**(341)**	**787**
Adjusted Net Income		**540**	**732**	**626**	**3,351**

Note:

(1) Refer to Note 11 to the unaudited condensed consolidated interim financial statements for further details.

(2) Represents recognition of share-based compensation, which have been accounted for as selling and administrative expenses.

The following table provides a reconciliation of cash provided by operating activities to Free Cash Flow and Adjusted Free Cash Flow for the periods indicated:

(in thousands of US dollars) (unaudited)	Q2 2022	Q2 2021	YTD Q2 2022	YTD Q2 2021
Cash provided by operating activities	**1,292**	**2,530**	**5,020**	**4,275**
Less: purchase of property and equipment	**(39)**	**(264)**	**(86)**	**(374)**
Free Cash Flow and Adjusted Free Cash Flow	**1,253**	**2,266**	**4,934**	**3,901**

The following table provides a reconciliation of borrowings and cash to Net Debt and Net Debt to Adjusted EBITDA as at June 30, 2022 and December 31, 2021:

(in thousands of US dollars) (unaudited)	As at June 30, 2022	As at December 31, 2021
Total borrowings, before unamortized deferred financing costs	**128,681**	**133,500**
Cash	**(11,195)**	**(11,982)**
Net Debt	**117,486**	**121,518**
Net Debt (numerator)	**117,486**	**121,518**
Adjusted EBITDA (denominator) [(1)]	**12,946**	**16,506**
Net Debt to Adjusted EBITDA	**9.08**	**7.36**

Note:

(1) Reflects aggregate amounts for the most recent four quarters, as detailed in the table in the "Summary of Consolidated Quarterly Results and Certain Performance Measures" section.

The following table provides selected consolidated financial position data for the years indicated:

(in thousands of US dollars) (unaudited)	As at June 30, 2022	As at December 31, 2021	As at December 31, 2020
Selected consolidated financial position data			
Total assets	**289,748**	**294,460**	**426,433**
Total non-current liabilities	**127,963**	**133,567**	**169,782**

Results of Operations

Q2 2022 Compared to Q2 2021

The following section provides an overview of our financial performance during Q2 2022 compared to Q2 2021. [See notes under Non-IFRS Measures on page [10].]

Revenue

Revenue decreased by 10.4%, or $2.9 million, to $25.4 million in Q2 2022 compared to $28.3 million in Q2 2021. For the Canada/US region, revenue decreased by 12.6%, or $3.3 million to $22.9 million, compared to $26.2 million in Q2 2021. This decrease mainly reflects previously disclosed net distribution losses. For the International region, revenue increased by 15.9% or $0.4 million to $2.5 million, compared to $2.1 million in Q2 2021 which reflects the growth in certain emerging regions.

Cost of sales and gross profit

Cost of sales decreased by 16.2%, or $2.8 million, to $14.6 million in Q2 2022 compared to $17.4 million in Q2 2021, in line with the decrease in revenue. Gross profit decreased by 1.3%, or $0.1 million, to $10.8 million in Q2 2022 compared to $10.9 million in Q2 2021.

Gross profit margin was 42.4% in Q2 2022 compared to 38.5% in Q2 2021. While inflation continues to impact the cost of goods, the improvement in gross profit margin primarily is mainly attributable to a more profitable sales mix and lower inventory provisions/write downs in the quarter. The Company continues to closely monitor the impact of inflation on supply chain input costs and has implemented select pricing actions in concert with procurement cost saving initiatives.

Selling and administrative

Selling and administrative expense was $7.6 million in Q2 2022, compared to in $7.2 million Q2 2021. Selling and administrative expense as a percentage of revenue increased to 30.0% in Q2 2022 from 25.6% in Q2 2021, mainly as a result of lower sales base in combination with increased outbound freight costs and selling and marketing investments.

Excluding share-based compensation for Q2 2022, selling and administrative expense was $7.3 million, and as a percentage of revenue 28.7%, compared to $7.0 million, and 24.7% in Q2 2021.

Foreign exchange (gain) loss

Foreign exchange gain was $0.1 million in Q2 2022 compared to a loss of $0.1 million Q2 2021 due to fluctuations in the exchange rates of our functional currency relative to various source currencies during the period.

Amortization and depreciation

Amortization and depreciation expense was $1.1 million in Q2 2022 and Q2 2021.

Interest and accretion

Interest and accretion expense increased by $0.1 million in Q2 2022 to $1.8 million compared to $1.7 million in Q2 2021 primarily due to an increase in variable interest rates.

Integration, restructuring, and other

Integration, restructuring, and other charges increased to $0.2 million in Q2 2022 from ($4.7) million in Q2 2021. The increase was primarily attributable to a remeasurement gain on the deferred consideration in relation to the 2019 Acquisition in Q2 2021.

Income tax expense

Income tax recovery was $0.1 million in Q2 2022 compared to income tax expense of $1.4 million in Q2 2021 due to the change in taxable income and effect of expenses that are not deductible in determining taxable profit.

Net income for the period and Adjusted Net Income

In Q2 2022, the Company incurred a net income of $0.3 million, compared to net income of $4.1 million in Q2 2021 due to the factors discussed above.

Adjusted Net Income(2) decreased by $0.2 million, to $0.5 million in Q2 2022 compared to $0.7 million in Q2 2021 due to the factors discussed above.

EBITDA

EBITDA(2) decreased to $3.1 million in Q2 2022 compared to $8.3 million in Q2 2021. The decrease in EBITDA in Q2 2022 was primarily attributable to the $4.9 million increase in integration, restructuring and other costs which reflected a significant remeasurement gain on deferred consideration in the prior year.

Adjusted EBITDA

Adjusted EBITDA(2) decreased by 8.5%, or $0.3 million, to $3.5 million in Q2 2022 from $3.8 million in Q2 2021 due to the factors discussed above for EBITDA and after excluding integration, restructuring, and other costs, share-based compensation, and unrealized foreign exchange.

YTD Q2 2022 Compared to YTD Q2 2021

The following section provides an overview of our financial performance during YTD Q2 2022 compared to YTD Q2 2021. [See notes under Non-IFRS Measures on page [9/10].]

Revenue

Revenue decreased by 17.4%, or $9.8 million, to $46.5 million in YTD Q2 2022 compared to $56.3 million in YTD Q2 2021. For the Canada/US region, revenue decreased by 19.0%, or $10.0 million to $42.8 million in YTD Q2 2022 compared to the same period last year. For the International region, revenue increased by 6.4%, or $0.2 million to $3.7 million in YTD Q2 2022 compared to the same period last year.

For the Canada/US region, the decrease in revenue largely reflects net distribution losses and inventory adjustments year to date.

For the International region, the increase in revenue reflects continued recovery from COVID-19 and growth in certain regions.

Cost of sales and gross profit

Cost of sales decreased by 18.6%, or $6.1 million, to $26.4 million in YTD Q2 2022 compared to $32.5 million in YTD Q2 2021, consistent with the Revenue decline. Gross profit decreased by 15.8%, or $3.8 million, to $20.1 million in YTD Q2 2022 compared to $23.9 million in YTD Q2 2021.

Gross profit margin was 43.2% in YTD Q2 2022 compared to 42.3% in YTD Q2 2021. The increase in gross profit margin for the year to date period largely reflects improved sales mix and lower inventory provisions/write offs, partially offset by the impact of inflation on supply chain input costs.

Selling and administrative

Selling and administrative expense increased by 2.7%, or $0.3 million, to $14.3 million in YTD Q2 2022 compared to $14.0 million in YTD Q2 2021. Selling and administrative expense as a percentage of revenue increased to 30.8% in YTD Q2 2022 from 24.8% in YTD Q2 2021, mainly driven by the lower sales base.

Excluding share-based compensation for YTD Q2 2022, selling and administrative expense was $13.7 million, and as a percentage of revenue is 29.6%, compared to 23.8% in YTD Q2 2021.

Foreign exchange (gain) loss

Foreign exchange gain was $0.1 million in YTD Q2 2022 compared to a loss of $0.2 million in YTD Q2 2021 due to fluctuations in the exchange rates of our functional currency relative to various source currencies during the period.

Amortization and depreciation

Amortization and depreciation expense was $2.2 million in YTD Q2 2022 and YTD Q2 2021.

Interest and accretion

Interest and accretion was $3.5 million in YTD Q2 2022 and YTD Q2 2021.

Integration, restructuring, and other

Integration, restructuring, and other charges increased by $4.4 million to $0.8 million in YTD Q2 2022 from ($3.6) million in YTD Q2 2021. The increase was primarily attributable to a remeasurement gain on the deferred consideration in relation to the 2019 Acquisition.

Income tax expense

Income tax expense was $0.3 million in YTD Q2 2022 compared to income tax expense of $2.0 million in YTD Q2 2021 due to the change in taxable income and effect of expenses that are not deductible in determining taxable profit.

Net income and comprehensive income for the period and Adjusted Net Income

In YTD Q2 2022, the Company generated a net loss of $0.4 million, compared to net income of $5.7 million in YTD Q2 2021 due to the factors discussed above.

Adjusted Net Income decreased by $2.8 million, to $0.6 million in YTD Q2 2022 from $3.4 million in YTD Q2 2021 due to the factors discussed above.

EBITDA

EBITDA[(2)] decreased by 62.3%, or $8.3 million, to $5.0 million in YTD Q2 2022 compared to $13.3 million in YTD Q2 2021. The decrease in EBITDA in YTD Q2 2022 was primarily attributable to an increase in integration, restructuring, and other costs of $4.4 million and a decrease in gross profit of $3.8 million.

Adjusted EBITDA

Adjusted EBITDA[(2)] decreased by 37.9%, or $3.8 million, to $6.4 million in YTD Q2 2022 from $10.2 million in YTD Q2 2021 due to the factors discussed above for EBITDA and after excluding integration, restructuring, and other costs, purchase accounting adjustments, share-based compensation, and unrealized foreign exchange.

Summary of Consolidated Quarterly Results and Certain Performance Measures:

The following table summarizes the results of our operations for the last eight most recently completed quarters. This unaudited quarterly information has been prepared in accordance with IFRS. As a result of the 2019 Acquisition, the results of operations for any quarter are not necessarily indicative of the results of operations for the fiscal year.

(in thousands of US dollars, except for per share figures) (unaudited)	Q2 2022	Q1 2022	Q4 2021	Q3 2021	Q2 2021	Q1 2021	Q4 2020	Q3 2020
Revenue (1)	**25,373**	**21,137**	**26,703**	**24,123**	**28,332**	**27,998**	**23,323**	**31,335**
Gross profit	**10,757**	**9,317**	**10,393**	**9,733**	**10,899**	**12,952**	**9,059**	**15,342**
Net income (loss) for the period	**264**	**(632)**	**(142)**	**(103,146)**	**4,077**	**1,575**	**108**	**3,559**
Basic net income (loss) per common share	**0.01**	**(0.02)**	**0.00**	**(2.81)**	**0.11**	**0.04**	**0.00**	**0.10**
Diluted net income (loss) per common share	**0.01**	**(0.02)**	**0.00**	**(2.81)**	**0.10**	**0.04**	**0.00**	**0.08**
EBITDA (2)	**3,106**	**1,909**	**2,932**	**(126,958)**	**8,289**	**5,031**	**2,468**	**7,868**
Adjusted EBITDA (2)	**3,477**	**2,873**	**3,160**	**3,114**	**3,799**	**6,433**	**3,397**	**8,700**

Notes:

(1) Certain comparative figures have been revised to reclassify compliance charges that were previously recorded in selling and administrative expenses to revenue to conform with IFRS 15 and the financial presentation adopted for the current period.

(2) EBITDA and Adjusted EBITDA are each non-IFRS measures and are not earning measures recognized by IFRS. For definitions and reconciliations of these non-IFRS measures to the relevant recognized IFRS measures, please see "How We Assess the Performance of Our Business" and "Non-IFRS Measures" sections of this MD&A.

Our results of operations for the last eight quarters were impacted by a number of factors that include:

- The 2019 Acquisition and related purchase accounting adjustments;
- The volume and timing of promotional spend;
- The volume of inventory and timing of shipments to distributors and retailers;
- Foreign currency fluctuations;
- The streamlining of some of the Company's product collections and focus on higher-performing core products;
- Supply chain input costs;

- The impact of the impairment of goodwill recorded in Q3 2021;
- The COVID-related factors discussed elsewhere in this MD&A and the Company's AIF.

Liquidity and Capital Resources:

Overview

Our principal uses of funds are for operating expenses, capital expenditures, finance costs and debt service requirements. We believe that cash generated from our operations, together with amounts available under the Credit Facility, will be sufficient to meet our future operating expenses, capital expenditures and future debt service requirements. In addition, we believe that our capital structure provides us with significant financial flexibility to pursue our growth strategies. However, our ability to fund operating expenses, capital expenditures, future debt service requirements and any dividends will depend on, among other things, our future operating performance, which will be affected by general economic, financial and other factors, including factors beyond our control. Since the start of the COVID-19 pandemic and as a result of the inherent risks and uncertainties in the operating environment, the Company determined that it would be prudent in the circumstances to draw relatively modest amounts under its Credit Facility to maintain increased levels of cash on hand. See "Risk Factors" as well as the "Summary of Factors Affecting Performance" in this MD&A for additional information. We review acquisition and investment opportunities in the normal course of our business and may make select acquisitions and investments to implement our business strategy when suitable opportunities arise.

Working Capital

The following table presents our working capital position as at June 30, 2022 and December 31, 2021:

(in thousands of US dollars) (unaudited)	As at June 30, 2022	As at December 31, 2021
Cash	**11,195**	**11,982**
Trade and other receivables	**15,760**	**18,316**
Inventories	**33,792**	**33,703**
Prepaid expenses	**2,984**	**2,979**
Accounts payable and accrued liabilities	**(14,051)**	**(13,794)**
Current portion of deferred consideration	—	**(875)**
Current portion of lease liability	**(256)**	**(256)**
Working Capital	**49,424**	**52,055**

As at June 30, 2022, we had $49.4 million of working capital compared to $52.0 million of working capital as at December 31, 2021. Refer to Note 15 to the unaudited condensed consolidated interim financial statements for the impact of working capital changes on our operating cash flows.

Credit Facilities

Concurrent with the IPO, we, along with our subsidiaries, Marc Anthony Cosmetics Ltd. and MAC Pure Holdings, Inc., entered into a credit agreement with our direct and indirect subsidiaries, as guarantors, and the lenders from time to time party thereto, which is comprised of: (a) a revolving credit facility in the aggregate principal amount of $20 million: (i) to pay certain costs relating to the IPO and this new credit facility; (ii) to finance working capital and operational needs of our business; and (iii) for general corporate purposes (the "**Revolving Facility**"); and (b) a non-revolving term loan credit facility in the aggregate amount of up to $107.5 million: (i) to repay the indebtedness under the Financing Agreement and the Note Purchase Agreement; and (ii) to pay certain costs relating to the IPO and this credit facility (the "**Term Facility**", and together with the Revolving Facility, the "**Credit Facility**"). Pursuant to an amended and restated first amendment to the Credit Facility dated November 13, 2019, the aggregate principal amount of the Term Facility was increased to $138.5 million, the proceeds of which were used to consummate the 2019 Acquisition. The Credit Facility was further amended pursuant to a second amendment thereto dated as of June 11, 2021, to among other things, (i) amend the financial covenants and (ii) provide for benchmark replacement provisions. The Credit Agreement was further amended pursuant to a third amendment thereto dated as of September

30, 2021 to, among other things, (i) amend the financial covenants and (ii) provide for the repayment of the Term Facility at a rate at 5% per annum, in quarterly installments commencing on March 31, 2022. The Credit Facility includes an accordion feature in the amount of $50.0 million for working capital and general corporate purposes. The Credit Facility will mature on July 10, 2023.

The Company must satisfy certain financial covenants defined by the agreement relating to the Credit Facility. As at June 30, 2022, the Company was in compliance with these covenants.

Under the Credit Facility, we may borrow in U.S. dollars, by way of LIBOR based loans and base rate loans and in Canadian dollars, by way of bankers' acceptances and prime rate loans, in each case, plus the applicable margin in effect from time to time. In addition to the above, under the Revolving Facility, we may also borrow in Canadian dollars or U.S. dollars, by way of letters of credit plus the applicable margin in effect from time to time.

The Credit Facility provides for guarantees by us and our direct and indirect subsidiaries, including Marc Anthony Cosmetics Ltd. and MAC Pure Holdings, Inc. (the "**Credit Facility Guarantors**"). The Company, Marc Anthony Cosmetics Ltd., MAC Pure Holdings, Inc. and each of the other Credit Facility Guarantors provided a first priority lien over all property, subject to certain exclusions and permitted liens under the Credit Facility. The Company, Marc Anthony Cosmetics Ltd., MAC Pure Holdings, Inc. and each of the other Credit Facility Guarantors pledged 100% of the equity interests each entity holds in the capital of their respective subsidiaries, as applicable.

The Credit Facility contains negative covenants customary for credit facilities of this nature, including restrictions on the Company, Marc Anthony Cosmetics Ltd., MAC Pure Holdings, Inc. and each other Credit Facility Guarantors, subject to certain exceptions, as to: (a) indebtedness; (b) liens; (c) dividends or distributions on, or redemptions of equity interests; (d) investments; (e) non-ordinary course asset sales or other dispositions of property; (f) acquisitions; (g) amalgamations, mergers, consolidations, sale and lease back transactions; (h) material changes in corporate structure; (i) changes in business; and (j) transfers and registrations of intellectual property.

Cash Flows

The following table presents cash flows for Q2 2022 and Q2 2021:

(in thousands of US dollars) (unaudited)	**Q2 2022**	**Q2 2021**	**$ Change**	**% Change**
Cash, beginning of period	**13,175**	**18,185**	**(5,010)**	**(27.6%)**
Cash flows from (used in)				
Operating activities	**1,292**	**2,530**	**(1,238)**	**(48.9%)**
Investing activities	**(59)**	**(264)**	**205**	**(77.7%)**
Financing activities	**(3,213)**	**(2,622)**	**(591)**	**22.5%**
Cash, end of period	**11,195**	**17,829**	**(6,634)**	**(37.2%)**
Free Cash Flow and Adjusted Free Cash Flow[(1)]	**1,253**	**2,266**	**(1,013)**	**(44.7%)**

Note:

(1) Free Cash Flow and Adjusted Free Cash Flow are each non-IFRS measures and are not earning measures recognized by IFRS. For definitions and reconciliations of these non-IFRS measures to the relevant recognized IFRS measures, please see "How We Assess the Performance of Our Business" and "Non-IFRS Measures" sections of this MD&A.

Cash flows generated from operating activities

Q2 2022, cash flows from operations were $1.7 million and outflows from changes in non-cash working capital were $0.4 million. Compared to the same period last year, we had an increase in operating cash flows before changes in non-cash working capital of $1.4 million, offset by an unfavorable $2.6 million variance relating to changes in non-cash working capital.

Cash flows used in investing activities

Q2 2022, cash flows used in investing activities totaled $0.1 million compared to $0.3 million in Q2 2021, primarily reflecting a reduction of $0.2 million in purchases of property and equipment compared to Q2 2021.

Cash flows used in financing activities

Q2 2022, cash flows used in financing activities of $3.2 million reflects a repayment of borrowings compared to $2.6 million in Q2 2021.

Free Cash Flow and Adjusted Free Cash flow

The decrease in Free Cash Flow and Adjusted Free Cash flow(1) of $1.0 million at Q2 2022 compared to Q2 2021 primarily reflects the decrease in cash flow from operating activities of $1.2 million, increased debt repayments, net of reduced capital expenditures.

The following table presents cash flows for YTD Q2 2022 and YTD Q2 2021:

(in thousands of US dollars) (unaudited)	YTD Q2 2022	YTD Q2 2021	$ Change	% Change
Cash, beginning of period	**11,982**	**19,074**	**(7,092)**	**(37.2%)**
Cash flows from (used in)				
Operating activities	**5,020**	**4,275**	**745**	**17.4%**
Investing activities	**(988)**	**(2,898)**	**1,910**	**(65.9%)**
Financing activities	**(4,819)**	**(2,622)**	**(2,197)**	**83.8%**
Cash, end of period	**11,195**	**17,829**	**(6,634)**	**(37.2%)**
Free Cash Flow and Adjusted Free Cash Flow(1)	**4,934**	**3,901**	**1,033**	**26.5%**

Note:
(1) See "Non-IFRS Measures".

Cash flows generated from operating activities

YTD Q2 2022, cash flow from operations was $5.0 million. Compared to the same period last year, we had a decrease in operating cash flows before changes in non-cash working capital of $1.8 million offset by a $2.5 million increase in working capital recovery.

Cash flows used in investing activities

YTD Q2 2022, cash flows used in investing activities totaled $1.0 million compared to $2.9 million in YTD Q2 2021, a decrease of $1.9 million. This decrease is primarily attributable to repayments of deferred consideration of $2.5 million in YTD Q2 2021 compared with $0.9 million of deferred consideration repayments in YTD Q2 2022.

Cash flows provided by (used in) financing activities

YTD Q2 2022, cash flows used in financing activities totaled $4.8 million primarily due to a repayment of borrowings under the Company's revolving term loan facility, compared to $2.6 million in YTD Q2 2021.

Free Cash Flow and Adjusted Free Cash Flow

The increase in Free Cash Flow and Adjusted Free Cash Flow(1) of $1.0 million in YTD Q2 2022 compared to YTD Q2 2021 primarily reflects the increase in cash flow from operating activities of $0.7 million and a reduction of $1.9 million in the deferred consideration related to acquisitions, net of an $2.2 million increase in debt repayments.

Contractual Obligations

Pursuant to the third amendment to the Credit Facility dated as of September 30, 2021, the Company commenced repayment of the Term Facility in quarterly installments commencing on March 31, 2022. There were no substantial changes to our contractual obligations reported in our 2021 Annual MD&A. A copy of the 2021 Annual MD&A, which includes a summary of our contractual obligations, is available on SEDAR at www.sedar.com.

Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements that have or are reasonably likely to have a current or future material effect on our financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

Financial Instruments

Trade receivables and borrowings issued are initially recognized when they are originated. All other financial assets and financial liabilities are initially recognized when the Company becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at fair value through profit and loss ("**FVTPL**"), transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

Financial assets are not reclassified subsequent to their initial recognition unless the Company changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; *and*
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A financial asset classified as FVTPL is subsequently measured at fair value at each reporting period, with gains and losses recognized in the consolidated statements of operations and comprehensive income (loss). Financial assets classified measured at amortized cost are subsequently measured at using the effective interest method. The amortized cost is reduced by impairment losses. Interest income, foreign exchange gains and losses, impairment, and gains or losses on derecognition are recognized in the consolidated statements of operations and comprehensive income (loss).

Financial liabilities are classified as measured at amortized cost or FVTPL. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognized in the consolidated statements of operations and comprehensive income (loss). Other financial liabilities are subsequently measured at amortized cost using the effective interest method. Interest expense and foreign exchange gains and losses, as well as gains or losses on derecognition, are recognized in the consolidated statements of operations and comprehensive income (loss).

The Company's financial assets and financial liabilities are classified as follows:

Asset / Liability	**Classification**
Cash	Amortized cost
Trade and other receivables	Amortized cost
Accounts payable and accrued liabilities	Amortized cost
Borrowings	Amortized cost
Preferred shares	Amortized cost
Derivative financial instruments	Fair value (hedge accounting)
Deferred consideration	FVTPL

Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

Current Share and Information

As of the date hereof, the Company had 36,764,669 common shares, 3,178 Proportionate Voting Shares and 2,463,963 exchangeable shares issued and outstanding. As of the date hereof, an aggregate of 3,680,818 options to acquire common shares are outstanding, of which 2,053,618 are currently exercisable, an aggregate of 987,935 restricted share units, an aggregate of 488,122 performance share units and an aggregate of 295,668 deferred share units are outstanding, representing the right to receive common shares or cash, in accordance with the terms of our long-term incentive plan.

Related Party Transactions

Balances and transactions between us and our subsidiaries have been eliminated on consolidation.

For the six months ended June 30, 2022, the Company incurred restructuring and other costs in the amount of $0.3 million that were paid or payable to certain officers and former officers of the Company (six months ended June 30, 2021 - $0.7 million of restructuring and other costs paid or payable to certain directors and a former officer of the Company).

Critical Accounting Judgments and Estimates

There were no substantial changes to our critical accounting estimates and judgements since our 2021 Annual MD&A. Refer to the "Critical Accounting Judgements and Estimates" section within our 2021 Annual MD&A for a full discussion of the applicable critical accounting judgments and estimates of the Company, a copy of which is available on SEDAR at www.sedar.com.

Risk Factors

The ongoing COVID-19 pandemic has disrupted many of the factors affecting our operations and performance and could materially, adversely affect our business, results of operations and financial results.

COVID-19 has resulted in governments worldwide enacting various emergency measures to combat the spread of the virus. These measures, which have included the implementation of travel bans, border shutdowns between Canada and the United States, self-imposed quarantine periods, closing of non-essential businesses, social distancing and the cancellation of gatherings and events, have impacted the operations of MAV, our suppliers and our customers. While vaccination rates have improved in Canada and the US and most of the emergency measures to combat the virus have been lifted, uncertainty exists with respect to the emergence of variants of concerns and further waves of the virus and the impact on the Company's results of operations or financial condition.

Any prolonged store, warehousing, distribution or manufacturing disruptions or closures could significantly impact the Company's ability to service its customers and impact the Company's revenue. 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. Cost inflation has increased input costs by mid to high single digits in 2022. The impact of this increase is affecting costs of sales as these factors work through the full inventory cycle.

The Company is actively taking and assessing measures to mitigate these costs and operational disruptions, including operational efficiencies, increasing inventory of core products and select pricing actions. 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.

For a detailed description of risk factors associated with the Company, refer to the "Risk Factors" section of the Company's AIF, which is available on SEDAR at www.sedar.com.

In addition, we are exposed to a variety of financial risks in the normal course of operations including credit, market, interest rate, foreign currency and liquidity risk.

- *Credit risk:* Credit risk is the risk of loss associated with a counterparty's inability to fulfill its payment obligations. The Company's principal financial assets that expose it to credit risk are trade and other receivables. The Company provides credit to its customers in the normal course of its operations and manages this risk by monitoring the credit worthiness of its customers.
- *Interest rate risk:* The Company is exposed mainly to fluctuations in US dollar interest rate on its borrowings. Interest rate risk on the borrowings is mitigated through the use of interest rate swaps.
- *Foreign currency risk:* The Company undertakes sales and purchase transactions in foreign currencies and therefore is subject to gains and losses due to fluctuations in foreign currency exchange rates. The Company does not use any derivative financial instruments to reduce its exposure to foreign currency risk.

The Board, in conjunction with management, is responsible for risk management and the identification of the principal risks of the Company's business and oversight of management's implementation of appropriate systems to effectively monitor, manage and mitigate the impact of such risks. This includes identifying, evaluating and hedging financial risks based on the requirements of our organization.

Our Board provides guidance for overall risk management, covering many areas of risk including but not limited to foreign exchange risks, interest rate risks, credit risks and liquidity risks. As part of assessing and implementing appropriate policies and procedure to address specified risks, the Board may delegate financial and related risk management to the Audit Committee. Our overall risk management program and business practices seek to minimize any potential adverse effects on our consolidated financial performance.

Refer to our 2021 Annual MD&A for additional information over these risk factors.

Disclosure Controls & Procedures and Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate disclosure controls and procedures ("**DCP**") and internal controls over financial reporting ("**ICFR**"), as defined in National Instrument 52-109 – Certification of Disclosure in Issuers' Annual and Interim Filings ("**NI 52-109**"). There were no changes in the Company's internal controls over financial reporting that occurred in the three months ended June 30, 2022 that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

Additional Information

Additional information relating to the Company, including the Company's AIF is available on SEDAR at www.sedar.com. The Company's Shares are listed for trading on the TSX under the symbol "MAV".