Consolidated financial statements of
MAV Beauty Brands Inc.

December 31, 2022 and 2021
(in US dollars)

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
MAV Beauty Brands Inc.

Opinion

We have audited the consolidated financial statements of **MAV Beauty Brands Inc.** ["the Company"], which comprise the consolidated statements of financial position as at December 31, 2022 and 2021, and the consolidated statements of operations and comprehensive loss, consolidated statements of changes in shareholders' equity (deficiency) and consolidated statements of cash flows for the years ended December 31, 2022 and 2021, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2022 and 2021, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards [IFRSs].

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the consolidated financial statements of the current period. These matters were addressed in the context of the audit of the consolidated financial statements as a whole, and in forming the auditor's opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Impairment of goodwill and indefinite life intangible assets

Key Audit Matter	*How our audit addressed the key audit matter*
As detailed in Note 9 of the consolidated financial statements, as at December 31, 2022, the total carrying value of goodwill and indefinite life intangible assets related to the cash generating unit ("CGU") were $nil and $61 million, respectively. This is following an impairment of $145.5 million recorded during the year, of which $51.7 million, $81.1million and $12.7million was related to goodwill, brand names and customer lists, respectively. Management assesses at least annually, or at any time if an indicator of impairment exists, whether there has been an impairment loss in the carrying value of these assets. The Company performs their annual impairment test as of December 31 and estimates the recoverable amount of the CGU to which goodwill and indefinite life intangible assets have been allocated based on fair value less costs to dispose using a discounted cash flow model. The Company discloses significant judgments, estimates and assumptions and the result of their analysis in respect of impairment in Notes 2 and 9 to the consolidated financial statements. Auditing the Company's goodwill and indefinite life intangible assets impairment tests was complex given the degree of judgment and subjectivity in evaluating the estimates and assumptions used by the Company to determine the recoverable amount. Significant assumptions include revenue growth rates, earnings growth (decline) rates, terminal growth rate and discount rate, which are affected by expectations about future performance as well as market and economic conditions.	To test the estimated recoverable amount of the Company, our audit procedures included, among others, assessing methodologies and the significant assumptions and underlying data used by the Company in its analysis. To assess the reliability of revenue growth rates, earnings growth (decline) rates, the terminal growth rate and discount rate used in the estimation of the recoverable amount we performed the following procedures, among others: • With the assistance of our valuation specialists, we evaluated the Company's model, valuation methodology, terminal growth rate and discount rate. We assessed the various inputs used to determine the discount rate by referencing current industry, economic and comparable company information as well as Company and cash-flow specific risk premiums. • With the assistance of our valuation specialists, we assessed the allocation of impairment to assets other than goodwill based on the valuation of the assets being the highest of fair value less costs to dispose and value in use. • We assessed the accuracy of the Company's forecasts related to revenue growth rates and earnings growth (decline) rates by comparing historical forecasts to actual performance. • We performed sensitivity analysis on significant assumptions, including revenue growth rates, earnings growth (decline) rates, terminal growth rate, and discount rate, to assess the impact on the recoverable amount of the Company. We also assessed the adequacy of the Company's disclosures included in Note 9 of the consolidated financial statements.

Revenue Recognition - Promotional incentives

Key Audit Matter	***How our audit addressed the key audit matter***
As described in Note 2 to the consolidated financial statements, the Company provides certain customers with promotional incentives, which are determined based on expected sales volume and historical spending patterns. The estimated cost of the promotional incentives are recorded as a reduction of revenue at the time the product is sold to the customer. The Company's estimates of promotional incentives at year end are judgmental. The measurement of promotional incentives involves the use of judgement related to estimating future promotional spending and historical performance of promotions. The timing difference between the sale of goods by the Company and the settlement of customer-specific promotional incentives increases the risk associated with the measurement of revenues. Changes in the estimate of promotional incentives can have a significant impact on the amount of revenue recognized.	To test the estimated promotional incentives, our audit procedures included the following, among others: • We obtained an understanding of the Company's process and methodology of estimating future promotional spend. • We considered the appropriateness of the Company's revenue recognition accounting policies, specifically the recognition and classification criteria for promotional incentives, by reviewing the Company's arrangements with its customers. • We performed a lookback analysis to evaluate management's ability to forecast promotional incentives. • We assessed management's estimate of customer-specific promotional incentives by comparing actual incentives claimed to amounts accrued at year end. • We assessed the promotional incentives accrued at the end of the year by comparing program details, on a sample basis, with agreements or other correspondence between the Company and customers as well as assessing historical experience. • For accrued promotional incentives related to future promotions, we reviewed sales leading up to the promotional period to determine if products sold were shipped prior to year end. • Additionally, to corroborate our findings, we performed inquiry procedures with the sales representatives, with respect to the completeness of the Company's incentive programs.

Other information

Management is responsible for the other information. The other information comprises Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information, and in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty

exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Kwan-Ho Song.

Ernst & Young LLP
Chartered Professional Accountants
Licensed Public Accountants

Toronto, Canada
March 30, 2023

MAV Beauty Brands Inc.

Consolidated statements of operations and comprehensive loss

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

	Notes	Year ended December 31, 2022	Year ended December 31, 2021
		$	$
Revenue	4	**90,692**	107,156
Cost of sales	7	**52,201**	63,179
Gross profit		**38,491**	43,977
Expenses			
Selling and administrative	17	**27,758**	28,112
Impairment of goodwill and intangible assets	9	**145,479**	129,033
Amortization and depreciation	8, 9	**4,381**	4,385
Interest and accretion	10	**7,804**	6,566
Foreign exchange (gain) loss		**(274)**	167
Integration, restructuring, and other	3, 11	**1,270**	(2,629)
Total expenses		**186,418**	165,634
Loss before income taxes		**(147,927)**	(121,657)
Income tax expense (recovery)			
Current	15	**—**	(41)
Deferred	15	**7,912**	(23,980)
		7,912	(24,021)
Net loss for the year		**(155,839)**	(97,636)
Other comprehensive income, net of tax			
Unrealized change in fair value - cash flow hedge	12	**1,493**	918
Comprehensive loss for the year		**(154,346)**	(96,718)
Loss per common share			
Basic	5	**(4.24)**	(2.66)
Diluted	5	**(4.24)**	(2.66)
Weighted average number of common shares outstanding			
Basic and Diluted	5	**36,765,641**	36,764,669

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

MAV Beauty Brands Inc.

Consolidated statements of financial position

(Expressed in thousands of US dollars unless otherwise noted)

	Notes	As at December 31, 2022	As at December 31, 2021
		$	$
Assets			
Current assets			
Cash		**10,483**	11,982
Trade and other receivables	6	**14,586**	18,316
Inventories	7	**31,573**	33,703
Prepaid expenses		**2,134**	2,979
Total current assets		**58,776**	66,980
Non-current assets			
Property and equipment	4, 8	**2,218**	2,876
Deferred tax asset	15	**—**	12,457
Derivative financial assets	12, 16	**1,071**	—
Right-of-use asset		**2,145**	2,456
Intangible assets	4, 9	**61,024**	157,969
Goodwill	4, 9	**—**	51,722
Total assets		**125,234**	294,460
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		**11,408**	13,794
Current portion of borrowings	12	**6,425**	6,425
Deferred consideration	3	**—**	875
Current portion of lease liability	18	**256**	256
Total current liabilities		**18,089**	21,350
Non-current liabilities			
Deferred tax liability	15	**—**	4,246
Derivative financial liabilities	12	**—**	721
Lease liability	18	**2,204**	2,704
Borrowings	12	**118,215**	125,896
Total liabilities		**138,508**	154,917
Shareholders' equity (deficiency)			
Share capital	13	**230,543**	230,354
Accumulated other comprehensive income (loss)		**948**	(545)
Equity-settled employee benefits reserve	14	**10,165**	8,825
Deficit		**(254,930)**	(99,091)
Total shareholders' equity (deficiency)		**(13,274)**	139,543
Total liabilities and shareholders' equity (deficiency)		**125,234**	294,460

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

Signed "Chris Elshaw", Director *Signed "Stephen Smith"*, Director

(Expressed in thousands of US dollars unless otherwise noted)

	Notes	Share capital	Equity-settled employee benefits reserve	Accumulated other comprehensive income (loss)	Deficit	Total shareholders' equity (deficiency)
		$	$	$	$	$
Opening balance as at January 1, 2021		230,354	8,015	(1,463)	(1,455)	235,451
Net loss for the year		—	—	—	(97,636)	(97,636)
Other comprehensive income, net of tax	12, 15	—	—	918	—	918
Share-based compensation	14	—	810	—	—	810
Balance as at December 31, 2021		230,354	8,825	(545)	(99,091)	139,543
Opening balance as at January 1, 2022		**230,354**	**8,825**	**(545)**	**(99,091)**	**139,543**
Net loss for the year		**—**	**—**	**—**	**(155,839)**	**(155,839)**
Other comprehensive income, net of tax	12, 15	**—**	**—**	**1,493**	**—**	**1,493**
Share-based compensation	14	**189**	**1,340**	**—**	**—**	**1,529**
Balance as at December 31, 2022		**230,543**	**10,165**	**948**	**(254,930)**	**(13,274)**

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

MAV Beauty Brands Inc.

Consolidated statements of cash flows

(Expressed in thousands of US dollars unless otherwise noted)

Cash flows provided by (used in):	Notes	Year ended December 31, 2022	Year ended December 31, 2021
		$	$
Operating activities			
Net loss for the period		**(155,839)**	(97,636)
Adjustments to net income for non-cash items			
Impairment of goodwill and intangible assets	9	**145,479**	129,033
Amortization and depreciation	8, 9	**4,381**	4,385
Amortization of deferred financing costs	10	**809**	672
Accretion of deferred consideration	3, 10	**—**	583
Remeasurement of deferred consideration	3, 11	**—**	(6,957)
Accretion of lease liability	10	**168**	191
Share-based compensation	14	**1,559**	810
Unrealized foreign exchange gain		**(133)**	(2)
Deferred income tax expense (recovery)	15	**7,912**	(23,980)
Cash flow from operations		**4,336**	7,099
Net changes in non-cash working capital	19	**3,754**	(693)
Cash provided by operating activities		**8,090**	6,406
Investing activities			
Purchase of property and equipment	8	**(187)**	(568)
Purchase of intangible assets	9	**(37)**	(54)
Payment of deferred consideration	3	**(875)**	(2,524)
Cash used in investing activities		**(1,099)**	(3,146)
Financing activities			
Repayment of borrowings and revolving facilities	12	**(8,031)**	(10,000)
Deferred financing costs	12	**(459)**	(352)
Cash used in financing activities		**(8,490)**	(10,352)
Decrease in cash		**(1,499)**	(7,092)
Cash, beginning of year		**11,982**	19,074
Cash, end of year		**10,483**	11,982
Supplemental cash flow information	19		

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

1. Description of the business

MAV Beauty Brands 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 consolidated financial statements ("Financial Statements") include the accounts and results of the Company and its wholly owned subsidiaries.

2. Significant accounting policies

Basis of presentation and statement of compliance

The Financial Statements are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") on a going concern basis, under the historical cost convention, except for the revaluation of certain financial assets and liabilities to fair value. The Financial Statements are presented in US dollars, and all values are rounded to the nearest thousand ($000), except when otherwise indicated. The Financial Statements were authorized for issue in accordance with a resolution of the Company's Board of Directors on March 30, 2023.

Basis of consolidation

The 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 consolidated statements of operations and comprehensive loss 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.

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, 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.

2. Significant accounting policies (continued)

Revenue recognition (continued)

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 most likely outcome 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 revenue 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. Refer to Note 4 for segment information, which aligns with the disaggregation of revenue requirements.

Trade and other receivables

Trade and other receivables are measured at amortized cost, net of expected credit losses ("ECLs"). The Company applies a simplified approach in calculating ECLs which is determined based on historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment. Trade and other receivables are written off when there is no reasonable expectation of recovering the asset or a portion thereof.

Inventories

Inventories, which consist of raw materials and finished goods, are valued at the lower of cost and net realizable value. Cost is determined using the weighted average cost method. Net realizable value is determined based on the estimated selling price during the normal course of business less estimated selling expenses. The costs of inventories include expenditures incurred in acquiring the inventories and bringing them to their existing location and condition.

Property and equipment

Property and equipment are recorded at cost, less accumulated depreciation and any accumulated impairment losses. Assets are depreciated over their estimated useful lives. Significant components of property and equipment that have different depreciable lives are depreciated separately. Judgment is used in determining the appropriate level of componentization.

Depreciation is based on the following methods and rates. The estimated useful lives, residual values and depreciation methods are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Types of property and equipment		Depreciation term
Furniture and fixtures	Straight-line	5 years
Computer and IT systems	Straight-line	3-5 years
Printing plates and dies	Straight-line	2 years
Leasehold improvements	Straight-line	5 years

2. Significant accounting policies (continued)

Intangible assets

Intangible assets are recorded at cost, less accumulated amortization and any accumulated impairment losses. Amortization is based on the estimated useful life using the following methods:

Type of intangible asset		Amortization term
Brand names		Indefinite
Customer lists	Straight-line	16 years

The Marc Anthony, Renpure, Cake and The Mane Choice brand names are considered to have an indefinite life based on their revenue and cash flow performance history and the intent and ability of the Company to support the brands with investments to maintain their value for the foreseeable future. The assessment of indefinite life is reviewed annually to determine whether the indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is made on a prospective basis.

An intangible asset with a finite life is amortized over the useful economic life on a straight-line basis. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortization period or method, as appropriate, and treated as changes in accounting estimates. The amortization expense on an intangible asset with a finite life is recognized in the consolidated statements of operations and comprehensive loss over its estimated useful life.

Business combinations and goodwill

The Company accounts for its business combinations using the acquisition method. Under this method, the consideration transferred is measured at fair value. Acquisition-related and integration costs associated with the business combination are expensed as incurred. The Company recognizes goodwill as the excess of the cost of the acquisition over the net identifiable tangible and intangible assets acquired and liabilities assumed at their acquisition-date fair values. The fair values of tangible and intangible assets acquired, and liabilities assumed are based on estimates and assumptions of management. Estimates include the forecasting of future cash flows and discount rates. Subsequent changes in fair values are adjusted against the cost of acquisition if they qualify as measurement period adjustments. The measurement period is the period between the date of acquisition and the date where all significant information necessary to determine the fair values is available, not to exceed 12 months. All other subsequent changes are recognized in the consolidated statements of operations and comprehensive loss. For all business acquisitions, the Company records the results of operations of the acquired entities as of their respective effective acquisition dates.

Goodwill arising on an acquisition of a business represents the excess of the purchase price over the fair value of the net identifiable assets of the acquired business. Goodwill is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any.

Impairment

The carrying values of property and equipment and finite-life intangible assets are assessed at the end of each reporting period as to whether there is any indication that the assets may be impaired.

Goodwill and indefinite-life intangible assets are tested for impairment annually during the fourth quarter of the fiscal year or when there is an indication that the asset may be impaired.

2. Significant accounting policies (continued)

Impairment (continued)

If any indication of impairment exists or when the annual impairment testing for an asset is required, 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 ("FVLCS") and its value in use ("VIU") to the Company. In assessing VIU, estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. In determining FVLCS, recent market transactions are taken into account, if available. 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 consolidated statements of operations and comprehensive loss.

For impaired assets, excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Company estimates the asset's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the consolidated statements of operations and comprehensive loss.

As disclosed in Note 4, the Company has one reportable and operating segment, and goodwill has been fully allocated to this segment as it represents the lowest level at which management monitors goodwill.

The calculation for the recoverable amount of the CGU to which goodwill has been allocated 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 recoverable amount 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 applied to a CGU, 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 risks specific to the CGU. 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.

Deferred financing costs

Deferred financing costs in respect of the Company's long-term debt are amortized using the effective interest method over the term of the related financing agreement.

Foreign currency translation

The Financial Statements are presented in US dollars, which is the functional currency of the Company and the presentation currency for the Financial Statements. Transactions denominated in foreign currencies are translated into US dollars at the prevailing rate on the transaction date. Monetary assets and liabilities denominated in foreign currencies are translated into US dollars at the rate of exchange prevailing at the consolidated statement of financial position date. Exchange gains and losses are included in the consolidated statements of operations and comprehensive loss.

2. Significant accounting policies (continued)

Share-based payments

The fair value of share-based payments is established on the grant date using the Black-Scholes option-pricing model for the stock options. The number of stock options expected to vest is estimated on the grant date and subsequently revised on a periodic basis. The estimation of fair value requires making assumptions for the most appropriate inputs to the valuation model including the expected life of the option, expected stock price volatility and expected forfeitures. The fair values, adjusted for expectations related to performance conditions, are recognized as share-based payment costs in the consolidated statements of operations and comprehensive loss with a corresponding credit to equity settled employee benefits reserve on a graded-vesting basis over the vesting period. When stock options are exercised, any consideration paid is added to share capital, and the recorded fair value of the stock option is removed from equity-settled employee benefits reserve and added to share capital.

Cost of sales

Cost of product sales includes the cost of finished goods inventory and costs related to shipping and handling and warehousing.

Income taxes

Income tax expense comprises current and deferred income taxes. It is recognized in the consolidated statements of operations and comprehensive loss, except to the extent that the expense relates to items recognized either in other comprehensive income ("OCI") or directly in equity.

Current income tax is calculated on the basis of the tax laws enacted or substantively enacted at the date of the consolidated statements of financial position in the countries where the Company operates and generates taxable income.

A current or non-current tax liability/asset is the estimated tax payable/receivable on taxable earnings for the period, and any adjustments to taxes payable with respect to previous periods.

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply when the asset or liability is recovered or settled. Both the current and deferred tax assets and liabilities are calculated using tax rates that have been enacted or substantively enacted at the end of the reporting date.

The asset and liability method is used to account for deferred tax assets and liabilities, which arise from temporary differences between the carrying amount of assets and liabilities recognized in the consolidated statements of financial position and their corresponding tax basis. The carry forward of unused tax losses and credits are recognized to the extent that it is probable future taxable profits will be available against which they can be utilized.

The carrying amount of deferred income tax assets is reviewed at each consolidated statement of financial position date and reduced to the extent it is no longer probable that the related tax benefit will be realized.

Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Tax liabilities are, where there is a legally enforceable right, offset against tax assets within the same taxable entity and tax jurisdiction.

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.

2. Significant accounting policies (continued)

Financial instruments (continued)

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 or 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 loss. Financial assets classified as amortized cost are subsequently measured 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 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 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 loss.

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

Type of financial asset or liability	Classification
Cash	Amortized cost
Trade and other receivables	Amortized cost
Accounts payable and accrued liabilities	Amortized cost
Borrowings	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).

2. Significant accounting policies (continued)

Loss per share

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

Derivative financial instruments and hedge accounting

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.

At the inception of the agreements, the Company designs and documents the hedge relationship between its interest rate swaps and the interest coupons on a portion of its floating rate borrowings. The effectiveness of the hedge is assessed at inception and verified at least on a quarterly basis to ensure that an economic relationship exists.

The effective portion of the gain or loss on the hedging instrument is recognized in OCI in the cash flow hedge reserve, while any ineffective portion is recognized immediately in the consolidated statements of operations and comprehensive loss. Amounts accumulated in OCI are recycled to the consolidated statements of operations in the period when the hedged item affects profit and loss.

When a hedging item expires, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss that was reported in OCI remains in accumulated other comprehensive income (loss) ("AOCI") and is recognized in the consolidated statements of operations when the forecasted transaction ultimately affects profit and loss; and when a forecasted transaction is no longer expected to occur, the cumulative gain or loss that was reported in OCI is immediately recognized in the statements of operations.

Right-of-use assets and lease liabilities

The Company assesses whether a contract is or contains a lease, at the inception of a contract. The Company recognizes a right-of-use asset and a corresponding lease liability with respect to all lease agreements in which it is the lessee.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Company uses its incremental borrowing rate. Subsequently, the lease liability is measured by increasing its carrying amount to reflect accretion of the lease liability (using the effective interest method) and by reducing the carrying amount to reflect lease payments made. The right-of-use asset is depreciated over the shorter of the lease term and the useful life of the underlying asset. The Company applies IAS 36 – *Impairment of Assets*, to determine whether the asset is impaired and account for any identified impairment loss.

The Company has elected not to recognize right-of-use assets and lease liabilities for leases that have a lease term of 12 months or less and do not contain a purchase option or for leases related to low-value assets. Lease payments on short-term leases and leases of low-value assets are recognized as selling and administrative expenses in the consolidated statements of operations and comprehensive loss.

2. Significant accounting policies (continued)

Right-of-use assets and lease liabilities (continued)

The Company has also elected to not separate fixed non-lease components from lease components and instead account for each lease component and associated fixed non-lease components as a single lease component.

Variable rents that do not depend on an index or rate are not included in the measurement of the lease liability and the right-of-use asset. The related payments are recognized as an expense in the period in which the event or condition that triggers those payments occurs and are presented as selling and administrative expense in the consolidated statements of operations and comprehensive loss.

Critical accounting estimates and judgments

The preparation of the Financial Statements in conformity with IFRS requires management to make estimates, assumptions and judgments that affect the reported amounts of revenues, expenses, assets and liabilities and the accompanying disclosures. Such estimates relate to unsettled transactions and events as at the date of the Financial Statements. Accordingly, actual results may differ from estimated amounts. Estimates and assumptions are reviewed on an ongoing basis. Revisions to estimates are applied prospectively.

Global pandemic

In early 2020, 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 impacted financial results in 2021 and 2022 and could impact future financial results. While vaccination rates are high in Canada and the US and most 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 worsen and 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 continues to maintain a hybrid model limiting 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 assess and take measures to mitigate these costs and operational disruptions, including operational efficiencies, increasing inventory of core products and select pricing actions.

As a result of the continued and uncertain economic and business impact of the COVID-19 pandemic, the Company has reviewed the estimates, judgments and assumptions used in the preparation of its Financial Statements. The potential impacts on the Company's most significant estimates and judgments of COVID-19 include, but are not limited to, increased risk of impairment charges to the carrying amounts of goodwill, intangible assets and long-lived assets, and increased volatility in fair value measurements as a result of fluctuating market inputs. Other potential impacts of COVID-19 on the Company's financial position include, but are not limited to, increased credit risk resulting in increased expected credit losses on trade accounts receivable, increased risk of write-downs of inventories to net realizable value, and increased non-compliance charges associated with revenue from contracts with customers.

Significant judgments and estimates made by management in applying the Company's accounting policies and that have the most significant effect on amounts recognized in the Financial Statements are summarized below:

2. Significant accounting policies (continued)

Critical accounting estimates and judgments (continued)

(a) Provision for returns and promotional incentives

The Company uses historical data to estimate the value of the products sold in the current financial year that may be returned in a future year. For various sales discount programs and promotional incentives, the Company estimates the most likely amount payable to each customer under each trade and incentive program separately using expected sales volume and historical spending patterns.

(b) Provision for expected credit losses

The measurement of expected credit losses for financial assets measured at amortized cost requires estimates and certain assumption about future economic conditions and credit behaviour. The expected recovery amount can vary from the actual cash received.

(c) Inventory obsolescence

Inventory consists of raw materials and finished goods recorded at the lower of cost and net realizable value. Inventory represents a significant portion of the asset base of the Company and its value is reviewed at each reporting period. Inventories are written down to net realizable value when the cost of inventories is estimated to be unrecoverable due to obsolescence, damage or slow moving. Actual net realizable value can vary from the estimated provision.

(d) Business combinations

The identifiable assets acquired and liabilities assumed in a business combination will be recognized at their fair values. The Company makes judgments and estimates in determining the fair values. The excess of the purchase price over the fair values of identifiable assets acquired and liabilities assumed will be recognized as goodwill, if positive, and if negative, it is recognized in the consolidated statements of operations and comprehensive loss.

The fair value of the Company’s deferred consideration requires estimates with respect to future performance targets, the likelihood and timing of payments, and the discount rates used in estimating the fair value gain or loss during each reporting period.

(e) Useful lives of intangible assets

The estimated useful lives of intangible assets are reviewed at the end of each reporting period.

(f) Impairment of goodwill, property and equipment and intangible assets

The Company tests whether goodwill, property and equipment and intangible assets have suffered impairment in accordance with IAS 36, *Impairment of Assets.*

Management is required to use judgment in determining the CGUs and reviewing impairment indicators. The Company has concluded that it has only one CGU and tests goodwill and intangible assets for impairment on that basis.

In determining the recoverable amount of a CGU, various estimates are employed. The recoverable amount of a CGU is the higher of its FVLCS or VIU of the CGU. FVLCS is estimated with reference to observable market transactions or measured using discounted cash flow projections. The VIU is calculated based on a discounted cash flow model. The discount rate requires the use of management judgment, particularly with respect to entity specific risk premiums. Judgment is also required in determining the effective terminal rate, which is based on management’s assessment of the longer-term outlook of the Company.

2. Significant accounting policies (continued)

Critical accounting estimates and judgments (continued)

(g) Taxes

Deferred tax assets are recognized for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and the level of future taxable profits, together with future tax planning strategies.

The calculation of income taxes also requires judgment in interpreting tax rules and regulations. There are transactions and calculations for which the ultimate tax determination is uncertain. The Company's tax filings also are subject to audits, the outcome of which could change the amount of current and deferred tax assets and liabilities. Management believes that it has sufficient amounts accrued for outstanding tax matters based on information that currently is available.

(h) Fair value estimates of share-based compensation

Fair value of stock options is determined using the Black-Scholes option-pricing model. Inputs to the model are subject to various estimates related to volatility, interest rates, dividend yields and expected life of the stock options issued. Fair value inputs are subject to market factors, as well as internal estimates. In addition to the fair value calculation, the Company estimates the expected forfeiture rate with respect to equity settled share-based payments based on historical experience.

New standards, interpretations and amendments adopted by the Company

(a) IFRS 9, Financial Liability Modifications

As part of its 2018-2020 annual improvements to IFRS standards process, the IASB issued an amendment to IFRS 9. The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment. The Company has adopted this amendment effective January 1, 2022, which had no impact on the Financial Statements.

Standards issued but not yet effective

(a) IAS 1, Current and Non-Current

In January 2020 and October 2022, the IASB issued *Classification of Liabilities as "Current" or "Non-current"*, which amends IAS 1. The narrow scope amendments affect only the presentation of liabilities in the statement of financial position and not the amount or timing of their recognition. The amendments clarify that the classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period and align the wording in all affected paragraphs to refer to the right to defer settlement by at least 12 months. That classification is unaffected by the likelihood that an entity will exercise its deferral right. The amendments are effective for annual reporting periods beginning on or after January 1, 2023 and are to be applied retrospectively. The Company is currently evaluating the impact of adopting these amendments on its Financial Statements and will apply the amendments from the effective date.

2. Significant accounting policies (continued)

Standards issued but not yet effective (continued)

(b) IAS 1, Presentation of Financial Statements

In February 2021, the IASB issued amendments to IAS 1 and IFRS Practice Statements 2, *Making Materiality Judgements*, to help entities provide accounting policy disclosures that are more useful by replacing the requirement to disclose "significant" accounting policies with a requirement to disclose "material" accounting policies. The amendments are effective for annual periods beginning on or after January 1, 2023, with earlier application permitted. The Company is currently evaluating the impact of these amendments on its Financial Statements and will apply the amendments from the effective date.

(c) IAS 8, Definition of Accounting Estimates

In February 2021, the IASB issued amendments to IAS 8 that introduce a new definition of "accounting estimates". The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. The amendments are effective for annual periods beginning on or after January 1, 2023, with earlier application permitted. The Company is currently evaluating the impact of these amendments on its Financial Statements and will apply the amendments from the effective date.

3. Business combinations

Acquisition in 2019

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 2022, the Company paid $875 of deferred consideration in the first quarter for The Mane Choice. In 2021, the Company paid $2,524 of deferred consideration in the first quarter, of which $1,649 was for Cake Beauty Inc. ("Cake") and $875 was for The Mane Choice.

4. Segment information

The Company has one reportable and operating segment, which provides personal care products to consumers via retailers, distributors, and directly to consumers. 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.

4. Segment information (continued)

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	
	Year ended December 31, 2022	Year ended December 31, 2021
	$	$
Canada/US	**83,709**	99,485
International	**6,983**	7,671
	90,692	107,156

	Property and equipment	
	As at December 31, 2022	As at December 31, 2021
	$	$
Canada/US	**2,218**	2,876
International	**—**	—
	2,218	2,876

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. Loss per share

Basic weighted average shares outstanding are reconciled to diluted weighted average shares outstanding, as follows:

	Year ended December 31, 2022	Year ended December 31, 2021
	#	#
Number of shares		
Weighted average common shares outstanding - Basic and Diluted	**36,765,641**	36,764,669
Excluded from the diluted loss per share calculation are the following options and units as their effect would have been anti-dilutive:		
Common shares deemed to be issued in respect of share-based payments	**622,818**	127,695
Weighted number of exchangeable shares	**2,463,963**	2,463,963
Weighted number of Proportionate Voting Shares	**3,178,000**	3,178,000
	43,030,422	42,534,327

6. Trade and other receivables

Trade and other receivables consist of the following:

	December 31, 2022	December 31, 2021
	$	$
Trade and other receivables	**14,713**	18,620
Provision for expected credit losses	**(127)**	(304)
	14,586	18,316

The following is the breakdown of the trade and other receivables aging:

	December 31, 2022	December 31, 2021
	$	$
0–60 days	**13,406**	17,069
61–90 days	**650**	495
91–120 days	**469**	104
121 days and older	**188**	952
	14,713	18,620

Movements in the provision for expected credit losses were as follows:

	December 31, 2022	December 31, 2021
	$	$
Balance, beginning of year	**304**	490
Changes in expected credit losses	**(177)**	(186)
Balance, end of year	**127**	304

7. Inventories

Inventories consist of the following:

	December 31, 2022	December 31, 2021
	$	$
Raw materials	**9,354**	6,964
Finished goods	**23,769**	28,289
Provision for inventory obsolescence	**(1,550)**	(1,550)
	31,573	33,703

Inventories are carried at the lower of cost and net realizable value. During the year ended December 31, 2022, inventories recognized as an expense within cost of sales amounted to $43,478 (year ended December 31, 2021 - $53,751).

8. Property and equipment

	Furniture and fixtures	Computer and IT systems	Printing plates and dies	Leasehold improvements	Total
	$	$	$	$	$
Opening balance as at January 1, 2021	250	1,604	185	1,118	3,157
Additions during the year	—	304	147	117	568
Depreciation during the year	(73)	(465)	(173)	(138)	(849)
Balance as at December 31, 2021	177	1,443	159	1,097	2,876
Opening balance as at January 1, 2022	**177**	**1,443**	**159**	**1,097**	**2,876**
Additions during the year	**—**	**86**	**100**	**1**	**187**
Depreciation during the year	**(76)**	**(484)**	**(156)**	**(129)**	**(845)**
Balance as at December 31, 2022	**101**	**1,045**	**103**	**969**	**2,218**

9. Goodwill and intangible assets

	Customer lists	Brand names	Total intangible assets	Goodwill
	$	$	$	$
Cost				
Opening balance as at January 1, 2021	51,633	120,949	172,582	180,755
Additions	—	54	54	—
Balance as at December 31, 2021	51,633	121,003	172,636	180,755
Opening balance as at January 1, 2022	**51,633**	**121,003**	**172,636**	**180,755**
Additions	**—**	**37**	**37**	**—**
Balance as at December 31, 2022	**51,633**	**121,040**	**172,673**	**180,755**
Accumulated amortization and impairment				
Opening balance as at January 1, 2021	11,441	—	11,441	—
Amortization	3,226	—	3,226	—
Impairment of goodwill and intangible assets	—	—	—	129,033
Balance as at December 31, 2021	14,667	—	14,667	129,033
Opening balance as at January 1, 2022	**14,667**	**—**	**14,667**	**129,033**
Amortization	**3,225**	**—**	**3,225**	**—**
Impairment of goodwill and intangible assets	**12,741**	**81,016**	**93,757**	**51,722**
Balance as at December 31, 2022	**30,633**	**81,016**	**111,649**	**180,755**
Carrying amounts				
December 31, 2021	36,966	121,003	157,969	51,722
December 31, 2022	**21,000**	**40,024**	**61,024**	**—**

9. Goodwill and intangible assets (continued)

Impairment

The Company operates as a single CGU and therefore all goodwill and intangible assets have been tested at the Company level. The Company performed its impairment tests at each interim period based on indicators of impairment and also conducted its annual impairment test at December 31, 2022. Among other factors, the Company noted the following:

- The Company's share price declined from CAD $1.17 at December 31, 2021 to CAD $0.96 CAD on March 31, 2022, and increased to CAD $1.15 at June 30, 2022, then further declined to CAD $0.50 at September 30, 2022, and CAD $0.45 at December 31, 2022;
- Interest rates have been increasing faster than initially anticipated, which will impact the Company's future expected interest payments; and
- The Company revised its future revenue outlook, taking into account the latest in-store retail consumption data, planogram decisions for 2023 as well as the revenue decline in 2022 compared to 2021.

In assessing goodwill and 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 FVLCD, estimated using discounted cash flows. The fair value measurement was categorized as Level 3 fair value based on inputs in the valuation technique used.

The key assumptions used in the estimation of the recoverable amount at December 31, 2022 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	14.1%
Terminal growth rate	1.0%
Earnings growth (decline) rate	10.1% to 15.6%

As a result of the impairment tests undertaken at September 30, 2022 and December 31, 2022, the Company recorded impairment charges. At September 30, 2022, the estimated recoverable amount of the CGU was $89,904 lower than the carrying amount, resulting in an impairment of goodwill of $51,722 and intangible assets of $38,182. At December 31, 2022, the estimated recoverable amount of the CGU was $55,575 lower than the carrying amount, resulting in an impairment of intangible assets of $55,575. Impairment charges are recorded in the consolidated statements of operations and comprehensive loss.

10. Interest and accretion

Interest and accretion consist of the following:

	Year ended December 31, 2022	Year ended December 31, 2021
	$	$
Interest on borrowings and revolving facilities	**6,827**	5,120
Amortization of deferred financing costs	**809**	672
Accretion of deferred consideration	**—**	583
Accretion of lease liability	**168**	191
	7,804	6,566

11. Integration, restructuring, and other

Integration, restructuring, and other consist of the following:

	Year ended December 31, 2022	Year ended December 31, 2021
	$	$
Integration	**62**	803
Restructuring	**633**	1,606
Acquisition related (Note 3)	**—**	(6,957)
Other	**575**	1,919
	1,270	(2,629)

During the year ended December 31, 2021, as a result of changes in the expected amounts and timing of projected cash flows, the Company derecognized deferred consideration in the amount of $6,957 recorded in Integration, restructuring, and other in the consolidated statements of operations and comprehensive loss.

12. Borrowings

	December 31, 2022	December 31, 2021
	$	$
Non-revolving term loan	**120,469**	128,500
Revolving credit facility	**5,000**	5,000
	125,469	133,500
Deferred financing fees	**(829)**	(1,179)
Total borrowings	**124,640**	132,321

Non-revolving term loan and revolving credit facility

Concurrent with the IPO, the Company, along with its 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 $20.0 million: (i) to pay certain costs relating to the IPO and the entering into of the 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 the credit facility (the "Term Facility", and together with the Revolving Facility, constitute the "Credit Facility"). The Credit Facility includes an accordion feature in the amount of $50.0 million for working capital and general corporate purposes. 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 on June 11, 2021, September 30, 2021, September 29, 2022 and December 27, 2022 to, among other things, (i) amend the financial covenants, (ii) provide for the repayment of the Term Facility at a rate at 5% per annum, in quarterly installments commencing on March 31, 2022, (iii) provide for benchmark replacement provisions and (iv) extend the maturity date to January 10, 2024.

12. Borrowings (continued)

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

During the year ended December 31, 2022, the Company incurred deferred financing charges in the amount of $459 as a result of the amendments made to its Credit Facility, dated September 29, 2022 and December 27, 2022. The Company must satisfy certain financial covenants as defined by the agreement relating to the Credit Facility. As at December 31, 2022, the Company was in compliance with these covenants.

Subsequent to year end Fiscal 2022, the Credit Facility was further amended pursuant to a sixth amendment thereto dated March 30, 2023, to, among other things, (i) extend the maturity date to July 10, 2024, (ii) increase the interest rate for outstanding borrowings to SOFR plus 5.1% per annum, including 1.6% per annum of incremental interest payable-in-kind and added to the principal amount, (iii) limit drawdowns under the Revolving Facility to $5.0 million (which has been fully drawn), (iv) provide for mandatory pre-payments of the Revolving Facility with certain excess liquidity, (v) replace the net leverage covenant with new financial covenants described below, and (vi) provide for additional reporting requirements with respect to operating performance and cash flows.

Pursuant to the terms of the sixth amendment to the Credit Facility, the Company is required to satisfy many affirmative and negative covenants and to meet certain financial tests. The Credit Facility also includes customary events of default, including payment and covenant breaches, bankruptcy events and the occurrence of a change of control.

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 through OCI. 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 December 31, 2022, the Company had derivative financial assets of $1,071 (December 31, 2021 - derivative financial liabilities of $721).

13. 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 December 31, 2022, the Company had 36,853,401 common shares, 3,178 Proportionate Voting Shares and 2,463,963 exchangeable shares issued and outstanding.

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

14. 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. Pursuant to a March 22, 2022 amendment to the LTIP, which was approved by shareholders of the Company on June 15, 2022, the maximum number of common shares that may be reserved for issuance under the Plans increased from 10% to 25% of the total issued and outstanding common shares from time to time (assuming the conversion of all issued and outstanding Proportionate Voting Shares and non-voting exchangeable shares to common shares).

The Company recorded equity-settled employee benefits of $1,559 for the year ended December 31, 2022 ($810 for the year ended December 31, 2021) to reflect the share-based compensation expense relating to the Company's Plans, which is included in selling and administrative expense.

Stock options

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 starting in 2020 vest 25% on each anniversary of the date of grant.

The following table summarizes the movement in options and the weighted average exercise price of options for the year ended December 31, 2022:

	Number of options	Average exercise price
	#	CAD$
Options outstanding as at December 31, 2021	3,132,614	10.23
Grants	**880,952**	**0.89**
Forfeited	**(332,748)**	**5.41**
Options outstanding as at December 31, 2022	**3,680,818**	**8.43**

The assumptions used to measure the fair value of options granted during year ended December 31, 2020 under the Black Scholes option pricing model were as follows:

Expected option life (years)	5
Volatility	70.3%
Risk-free interest rate	2.46%

The following table summarizes information about share options outstanding and exercisable as at December 31, 2022:

	Number of options	Weighted average remaining life (in years)	Weighted average remaining vesting period (in years)	Number exercisable
	#			#
Exercise price (in CAD)				
0.89 to 4.72	**1,689,488**	**7.73**	**2.25**	**534,723**
6.23 to 7.79	**101,310**	**5.08**	**0.08**	**96,245**
9.44 to 12.46	**84,425**	**4.78**	**0.05**	**81,892**
14.00	**1,721,170**	**5.50**	**0.50**	**1,462,995**
14.16 to 23.37	**84,425**	**4.78**	**0.05**	**81,892**
	3,680,818	**6.48**	**1.27**	**2,257,747**

14. Equity-settled employee benefits reserve (continued)

Stock options (continued)

During the year ended December 31, 2022, the Company recognized $752 stock option expense (December 31, 2021 – $755) in Selling and administrative expense.

Deferred Share Units

The Company also has a Deferred Share Unit ("DSU") Program. 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 December 31, 2022, there were 580,255 DSUs issued and outstanding (December 31, 2021 – 188,387).

Restricted Stock Units

The Company is 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 first quarter of 2022, the Company issued 750,787 RSUs to certain officers of the Company that vest 33.33% on each anniversary of the date of grant. RSUs issued prior to 2022 to certain officers of the Company cliff vest on the date that is three years from the date of grant.

Equity-settled employee benefits in connection with the issuance of RSUs to eligible participants were $487 for the year ended December 31, 2022 (year ended December 31, 2021 - $55). These amounts were included in selling and administrative expense.

As at December 31, 2022, the Company had 787,935 RSUs outstanding, with a choice of settlement at the option of the Company. The Company has determined that it is not expecting to settle any RSUs in cash.

Performance Share Units

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 year ended December 31, 2021, the Company granted 488,122 PSUs to certain officers of the Company, which reflected the total number of PSUs outstanding as at December 31, 2022. 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.

14. Equity-settled employee benefits reserve (continued)

Performance Share Units *(continued)*

Equity-settled employee benefits in connection with the issuance of PSUs to eligible participants were $317 for the year ended December 31, 2022 (year ended December 31, 2021 - $nil). These amounts were included in selling and administrative expense.

15. Income taxes

Income tax recognized in profit or loss

The components of the income tax expense are as follows:

	December 31, 2022	December 31, 2021
	$	$
Current tax		
In respect of the current year	**—**	(41)
	—	(41)
Deferred tax		
In respect of the current year	**7,912**	(23,980)
	7,912	(23,980)
Total income tax expense (recovery) recognized in the current year	**7,912**	(24,021)

Rate reconciliation

The income tax expense (recovery) can be reconciled to the accounting loss as follows:

	Year ended December 31, 2022	Year ended December 31, 2021
	$	$
Loss before income taxes	**(147,927)**	(121,657)
Income tax expense calculated at 26.5%	**(39,201)**	(32,239)
Effect of goodwill impairment that is not deductible in determining taxable profit	**2,996**	7,475
Effect of other expenses that are not deductible in determining taxable profit	**418**	240
Deferred tax asset not recognized	**42,693**	—
Effect on changes to deferred taxes on filing of returns	**(32)**	—
Other	**1,038**	503
	7,912	(24,021)

The applicable tax rate represents the substantively enacted combined Canadian federal and Ontario provincial tax rate.

15. Income taxes (continued)

Deferred tax balances

The following is the analysis of deferred tax assets and liabilities presented in the consolidated statements of financial position:

	December 31, 2022	December 31, 2021
	$	$
Deferred tax assets	—	12,457
Deferred tax liabilities	—	(4,246)
	—	8,211

	December 31, 2022	December 31, 2021
	$	$
Deferred tax assets(liabilities) in relation to:		
Goodwill and intangible assets	—	(1,129)
Financing costs	—	631
Tax losses	—	7,130
Contingent consideration	—	446
Other	—	1,133
	—	8,211

Below is the movement of the deferred tax assets (liabilities) during the year:

	$
Opening balance as at January 1, 2021	(15,444)
Deferred tax recovery on the statement of operations and comprehensive loss	23,980
Deferred tax recognized in comprehensive loss	(325)
Balance as at December 31, 2021	8,211
Opening balance as at January 1, 2022	**8,211**
Deferred tax expense on the statement of operations and comprehensive loss	**(7,912)**
Deferred tax recognized in comprehensive loss	**(299)**
Balance as at December 31, 2022	—

15. Income taxes (continued)

Deferred tax balances

The following temporary differences have not been recognized in the Consolidated Financial Statements:

	December 31, 2022
	$
Goodwill and Intangibles	**118,568**
Non-capital losses carried forward - Canada	**9,665**
Non-capital losses carried forward - US	**27,441**
Non-deductible interest carried forward	**5,708**
Deferred transaction costs	**3,400**
Leases	**314**
Total deductible temporary differences	**165,096**

The Canadian non-capital losses carried forward will expire in 2038-2043. U.S. federal non-capital losses carried forward have no expiry date. In 2022, all previously recognized deferred tax assets were derecognized.

16. Financial instruments and risk management

Financial assets and liabilities except for long-term borrowings have relatively short periods to maturity and the carrying values contained in the Financial Statements approximate their fair value.

Financial risk management objectives

As a result of holding and issuing financial instruments, the Company is exposed to credit, interest rate risk and foreign currency risks. The following provides a description of these risks and how the Company manages these exposures.

(a) 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, and the Company mitigates this risk by monitoring the creditworthiness of its customers.

The Company provides credit to its customers in the normal course of its operations. The amounts disclosed in the consolidated statements of financial position represent the maximum credit risk and are net of allowance for doubtful accounts, based on management's estimates taking into account the Company's prior experience and its assessment of the current and forward-looking economic environment. As at December 31, 2022, 39% of trade and other receivables are due from 2 customers (2021 - 43%).

Two customers contributed 10% or more to the Company's revenue for the years ended December 31, 2022 and December 31, 2021.

(b) Interest rate risk

The Company is exposed to changes in interest rates on cash and borrowings. Interest rate risk on the borrowings is partially managed through the use of interest rate swaps.

If interest rates had been 50 basis points higher and all other variables were held constant, the Company's interest and accretion expense for the year ended December 31, 2022 would increase by $652 (year ended December 31, 2021 - $689).

16. Financial instruments and risk management (continued)

Financial risk management objectives (continued)

(c) 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 consolidated statements of financial position include the following amounts with respect to financial assets and liabilities for which cash flows are originally denominated in currencies other than US dollars:

	December 31, 2022	December 31, 2021
	$	$
Cash	**1,158**	1,218
Trade and other receivables	**3,418**	3,769
Accounts payable and accrued liabilities	**(5,835)**	(6,008)
Lease liability	**(2,460)**	(2,960)

As at December 31, 2022, if a shift in foreign currency exchange rates of 10% were to occur, the foreign exchange gain or loss on the Company's net monetary assets could change by approximately $372 (2022 - $398) due to the fluctuation, and this would be recorded in the consolidated statements of operations and comprehensive loss.

(d) Liquidity risk

The Company's ability to generate cash to meet its operating needs, expenditures and debt service obligations, will depend on its future performance and financial condition, which will be affected by financial, business, economic, legislative, regulatory and other factors, including potential changes in costs, pricing, the success of product innovation and marketing, competitive pressure and consumer preferences. If the Company's cash flows and capital resources are insufficient to fund its debt service obligations, covenants and other cash needs, the Company could face substantial liquidity problems and could be forced to forego growth opportunities, reduce or delay investments and capital expenditures, restructure or refinance its indebtedness, dispose of material assets or operations, reduce its workforce, revise its business plans, seek additional debt or equity capital or seek additional capital contributions or loans from its principal shareholders and/or third parties. The Company may be unable to take any of these actions due to a variety of commercial or market factors or constraints in the Credit Facility, including, for example, market conditions being unfavorable for an equity or debt issuance, additional capital contributions or loans not being available from principal shareholders and/or third parties, or that the transactions may not be permitted under the terms of the Credit Facility. Such actions, if ever taken, may not enable the Company to satisfy its cash requirements or minimum liquidity levels if the actions do not result in sufficient cost reductions or generate a sufficient amount of additional capital, as the case may be.

Liquidity risk is the risk that the Company may not have cash available to satisfy financial liabilities as they come due. The Company monitors and manages its liquidity to ensure that it has access to sufficient funds to meet its liabilities when due. The Company monitors its cash balances and cash flows generated from operations to meet its requirements. As at December 31, 2022 and 2021, the most significant financial liabilities are borrowings, accounts payable and accrued liabilities, lease liability and deferred consideration.

16. Financial instruments and risk management (continued)

Financial risk management objectives (continued)

(e) Management of capital

The Company has implemented various capital policies, procedures and processes that are utilized to achieve its capital management objectives. These include optimizing the cost of capital and maximizing shareholder return while balancing the interests of stakeholders. The Company's capital is composed of share capital, exchangeable shares and borrowings used plus credit available under certain credit facilities, which assist in financing (i) acquisitions and/or (ii) working capital requirements. The Company's primary uses of capital are financing its operations and acquisitions. The Company currently funds these requirements from cash flows from operating activities, debt and cash raised through past share issuances. The Company's objectives when managing capital are to ensure that the Company will continue to have enough liquidity so it can provide services to its customers and increase shareholder value.

17. Key management and related party transactions

The remuneration of key management personnel during the respective fiscal periods was as follows:

	Year ended December 31, 2022	Year ended December 31, 2021
	$	$
Salaries	**1,604**	2,141
Benefits	**646**	918
Share-based compensation	**1,055**	836
	3,305	3,895

18. Commitments and contingencies

Lease liability maturity schedule

The Company is obligated under various leases for premises as follows:

	$
2023	**476**
2024	**506**
2025	**506**
2026	**506**
2027	**507**
2028 and thereafter	**972**
	3,473

Inventory purchase commitments

As at December 31, 2022, the Company has inventory purchase commitments, which include open purchase orders, for an aggregate amount of $11,421.

18. Commitments and contingencies (continued)

Contingent liabilities

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 material provisions have been recognized.

19. Supplemental cash flow information

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

	Year ended December 31, 2022	Year ended December 31, 2021
	$	$
Decrease in assets		
Trade and other receivables	**3,730**	1,876
Inventories	**2,130**	2,502
Prepaid expenses	**845**	164
	6,705	4,542
Decrease in liabilities		
Accounts payable and accrued liabilities	**(2,950)**	(5,235)
	3,754	(693)

The supplemental cash flow information comprises the following:

	Year ended December 31, 2022	Year ended December 31, 2021
	$	$
Interest paid	**6,827**	5,120