

Condensed interim consolidated financial statements

LXR_{AND} CO

LXRandCo, Inc.

Three-month and six-month periods ended June 30, 2017 and 2016

LXRandCo, Inc.

Consolidated statements of financial position

[in Canadian dollars]

Unaudited

As at

	June 30, 2017	December 31, 2016
	\$	\$
Assets [note 6]		
Current		
Cash	6,267,663	938,966
Accounts receivable	1,960,829	2,462,213
Sales tax receivable	443,286	31,924
Inventory	12,140,747	6,871,597
Prepaid expenses and deposits	654,960	340,520
Total current assets	21,467,485	10,645,220
Deferred financing costs	461,306	—
Property and equipment, net	1,022,555	1,000,913
Intangible assets, net	577,617	256,917
Investment and other assets	112,682	112,682
Goodwill [note 5]	4,976,084	—
Deferred income taxes	19,288	—
	28,637,017	12,015,732
Liabilities and shareholders' equity (deficiency)		
Current		
Credit facility [note 6]	—	3,399,362
Accounts payable and accrued liabilities	4,206,733	4,017,524
Income tax payable	860,579	—
Current portion of long-term debt [note 7]	281,525	2,841,026
Preferred shares	—	300,000
Total current liabilities	5,348,837	10,557,912
Long-term debt [note 7]	27,096	187,727
Convertible redeemable preferred shares [note 8]	—	30,226,003
Deferred income taxes	—	178,243
Total liabilities	5,375,933	41,149,885
Shareholders' equity (deficiency)		
Share capital [note 9]	64,221,847	100
Additional paid-in capital [note 9]	236,625	—
Deficit	(41,056,827)	(28,961,429)
Accumulated other comprehensive loss	(140,561)	(172,824)
Total shareholders' equity (deficiency)	23,261,084	(29,134,153)
	28,637,017	12,015,732

See accompanying notes

LXRandCo, Inc.

Consolidated statements of loss and comprehensive loss

[in Canadian dollars, except share information]

Unaudited

	Three months ended		Six months ended	
	2017	June 30, 2016	2017	June 30, 2016
	\$	\$	\$	\$
Net revenue [note 12]	7,174,723	4,136,951	13,320,685	7,981,827
Cost of sales	5,136,572	2,861,279	9,478,026	5,455,033
Gross profit	2,038,151	1,275,672	3,842,659	2,526,794
Selling, general and administrative expenses [note 11]	2,810,809	1,513,460	4,955,794	2,727,904
Amortization and depreciation expenses	73,395	57,149	156,387	129,684
Results from operating activities	(846,053)	(294,937)	(1,269,522)	(330,794)
Finance costs	308,222	233,746	666,793	401,141
Debt extinguishment costs	612,939	—	612,939	—
Foreign exchange (gain) loss	(72,355)	6,593	(3,275)	(53,848)
Convertible redeemable preferred share dividends [note 8]	—	—	61,308	—
Non-recurring gain on loss of control of a subsidiary	—	(363,948)	—	(363,948)
Non-recurring gain from a step combination [note 4]	—	—	(2,070,422)	—
Excess of fair value over net assets acquired [notes 2 and 9]	14,089,742	—	14,089,742	—
Non-recurring acquisition costs [note 2]	774,785	—	774,785	—
Gain on expiration of warrants [note 8]	—	—	(3,195,459)	—
Loss before income taxes	(16,559,386)	(171,328)	(12,205,933)	(314,139)
Income tax expense				
Current	85,876	(186,084)	86,996	(172,182)
Deferred	(197,531)	186,236	(197,531)	186,236
	(111,655)	152	(110,535)	14,054
Net loss for the period	(16,447,731)	(171,480)	(12,095,398)	(328,193)
Other comprehensive income (loss)				
Cumulative translation adjustment	127,987	34,842	32,263	69,122
Comprehensive loss for the period	(16,319,744)	(136,638)	(12,063,135)	(259,071)
Loss per share [note 10]				
Basic and fully diluted	(2.51)	(0.04)	(2.17)	(0.07)
Weighted average number of shares outstanding – Basic and fully diluted	6,558,259	4,584,080	5,571,170	4,584,080

See accompanying notes

LXRandCo, Inc.

Consolidated statements of changes in shareholders' equity (deficiency)

[in Canadian dollars]

Unaudited

	Share capital	Deficit	Additional paid-in capital	Accumulated translation adjustment	Total shareholders' equity (deficiency)
	\$	\$	\$	\$	\$
Balance, December 31, 2015	100	(644,411)	—	(184,364)	(828,675)
Net loss for the period	—	(328,193)	—	—	(328,193)
Cumulative translation adjustment	—	—	—	—	—
Balance as at June 30, 2016	100	(972,604)	—	(184,364)	(1,156,868)
Net loss for the period	—	(27,988,825)	—	—	(27,988,825)
Cumulative translation adjustment	—	—	—	11,540	11,540
Balance as at December 31, 2016	100	(28,961,429)	—	(172,824)	(29,134,153)
Net loss for the period	—	(12,095,398)	—	—	(12,095,398)
Cumulative translation adjustment	—	—	—	32,263	32,263
Stock-based compensation expense	—	—	236,625	—	236,625
Conversion of convertible redeemable preferred shares into common shares <i>[notes 8 and 9]</i>	31,477,370	—	—	—	31,477,370
Common shares issued in Qualifying acquisition <i>[notes 2 and 9]</i>	32,744,377	—	—	—	32,744,377
Balance as at June 30, 2017	64,221,847	(41,056,827)	236,625	(140,561)	23,261,084

See accompanying notes

LXRandCo, Inc.

Consolidated statements of cash flows

[in Canadian dollars]

Unaudited

	Three months ended		Six months ended	
	June 30,		June 30,	
	2017	2016	2017	2016
	\$	\$	\$	\$
Operating activities				
Net loss for the period	(16,447,731)	(171,480)	(12,095,398)	(328,193)
Non-cash items:				
Depreciation of property and equipment	44,299	7,744	105,047	43,874
Amortization of intangible assets	29,096	49,405	51,340	85,810
Amortization of deferred financing costs <i>[note 6]</i>	330,849	52,202	501,247	80,522
Stock-based compensation expense <i>[note 9]</i>	185,731	—	236,625	—
Deferred income tax recovery	(197,531)	186,236	(197,531)	186,236
Unrealized foreign exchange (gain) loss on non-monetary assets	(74,174)	(10,494)	54,291	(9,151)
Non-recurring gain from a step business combination	—	—	(2,070,422)	—
Non-recurring gain on loss of control of a subsidiary	—	(363,948)	—	(363,948)
Excess of fair value over net assets acquired	14,089,742	—	14,089,742	—
Convertible redeemable preferred share dividends	—	—	61,308	—
Gain on expiration of warrants	—	—	(3,195,459)	—
Interest accretion expense on subordinated debt	—	8,758	18,279	17,224
	(2,039,719)	(241,577)	(2,440,931)	(287,626)
Net change in non-cash working capital balances related to operations	(2,475,822)	(1,548,139)	(4,682,511)	(2,913,567)
Cash used in operating activities	(4,515,541)	(1,789,716)	(7,123,442)	(3,201,193)
Investing activities				
Acquisition of intangible assets	(242,927)	(170,122)	(372,040)	(116,178)
Acquisition of property and equipment	(51,498)	(3,665)	(126,688)	(32,724)
Cash acquired from acquisition <i>[note 2]</i>	19,004,989	—	19,004,989	—
Cash acquired from a step business combination <i>[note 4]</i>	—	—	803,661	—
Cash provided by (used in) investing activities	18,710,564	(173,787)	19,309,922	(148,902)
Financing activities				
Net increase (decrease) in credit facility	(4,571,353)	151,027	(3,873,743)	1,389,783
Proceeds from issuance of long-term debt	—	47,448	—	—
Repayment of long-term debt	(2,942,585)	(201,595)	(3,181,438)	(659,433)
Payment of financing and issuance costs	(425,423)	(262,493)	(487,154)	—
Redemption of preferred shares	(300,000)	—	(300,000)	—
Proceeds from issuance of convertible redeemable preferred shares <i>[note 8]</i>	—	2,704,234	1,000,000	2,704,234
Cash provided by (used in) financing activities	(8,239,361)	2,438,621	(6,842,335)	3,434,584
Effect of exchange rate changes on cash	(7,243)	10,494	(15,448)	9,151
Net increase in cash during the period	5,948,419	485,612	5,328,697	93,640
Cash, beginning of period	319,244	517,886	938,966	909,858
Cash, end of period	6,267,663	1,003,498	6,267,663	1,003,498
Supplementary information (as reported in operating activities)				
Income taxes paid	—	—	—	—
Interest paid	212,126	99,930	331,455	178,691
Convertible redeemable preferred shares issued in a step business combination <i>[note 4]</i>	—	—	3,384,086	—

See accompanying notes

LXRandCo, Inc.

Notes to the condensed interim consolidated financial statements

(in Canadian dollars, except share information)

Three-month and six-month periods ended June 30, 2017 and 2016

Unaudited

1. Company information

LXRandCo, Inc. ("LXRandCo" or the "Company") is an international omni-channel retailer of branded vintage luxury handbags and accessories. LXRandCo sources and authenticates high quality pre-owned products and sells them through: a retail network of stores located in major department stores in Canada, the United States and Europe; wholesale operations primarily in the United States; and its own e-Commerce website. LXRandCo is incorporated and domiciled in Canada and its legal headquarters are located at 130 Adelaide Street West, Toronto, Ontario, M5H 3P5. LXRandCo's operating head office is located at 40 Jean-Talon Street West, Montréal, Québec, Canada, H2R 2W5 and the Company also maintains an office in Tokyo, Japan.

On June 9, 2017, Gibraltar Growth Corporation ("Gibraltar Growth"), the predecessor of the Company, completed the acquisition of LXR Produits de Luxe International Inc. ("LXR International") (the "LXR Acquisition") and closed a private placement (the "Private Placement") of Class B shares ("Class B Share") for gross proceeds of \$25 million. Gibraltar Growth, a special purpose acquisition corporation ("SPAC") whose Class A restricted voting shares (each, a "Class A Restricted Voting Share") and warrants (each, a "Warrant") were listed on the Toronto Stock Exchange (the "TSX"), was incorporated under the *Business Corporations Act* (Ontario) for the purpose of effecting an acquisition of one or more businesses or assets, by way of merger, amalgamation, share exchange, asset acquisition, share purchase, reorganization, or other similar business combination involving Gibraltar Growth, referred to as its "qualifying acquisition". The LXR Acquisition constituted Gibraltar Growth's qualifying acquisition (the "Qualifying Acquisition"). In connection with the closing of the Qualifying Acquisition, Gibraltar Growth was renamed to LXRandCo, Inc.

While Gibraltar Growth was the legal acquirer of LXR International, LXR International was identified as the acquirer for accounting purposes. The LXR Acquisition is outside the scope of IFRS 3, Business Combinations ("IFRS 3"), and it is accounted for as an equity-settled share-based payment transaction in accordance with IFRS 2, Share-based Payments ("IFRS 2"). LXRandCo is considered to be a continuation of LXR International with the net identifiable assets of Gibraltar Growth deemed to have been acquired by LXR International in exchange for shares of LXR International. Under IFRS 2, the transaction is measured at the fair value of the shares deemed to have been issued by LXR International in order for the ownership interest in the combined entity to be the same as if the transaction had taken the legal form of LXR International acquiring 100% of Gibraltar Growth. Any difference in the fair value of the shares deemed to have been issued by LXR International and the fair value of Gibraltar Growth's identifiable net assets represents a service received by LXR International, recorded through profit and loss. LXR International's historical financial statements as of and for the periods ended prior to the completion of the Qualifying Acquisition are presented as the historical financial statements of LXRandCo prior to the date of the completion of the Qualifying Acquisition.

As at June 30, 2017, LXRandCo's retail network consisted of 61 stores located as follows: 38 in the United States, 10 in Germany, 4 in Belgium and 9 in Canada.

LXRandCo, Inc.

Notes to the condensed interim consolidated financial statements

(in Canadian dollars, except share information)

Three-month and six-month periods ended June 30, 2017 and 2016

Unaudited

2. Significant events and transactions

On April 13, 2017, LXR International and its shareholders entered into a share purchase agreement (the "Purchase Agreement") with Gibraltar Growth, which among other things, provided for the acquisition by Gibraltar Growth of all the issued and outstanding shares of LXR International for an aggregate purchase price of \$82.5 million, subject to adjustments and payable in accordance with the terms of the Purchase Agreement. As a result of the acquisition, upon closing, LXR International became a wholly-owned subsidiary of Gibraltar Growth.

On April 13, 2017, Gibraltar Growth announced that it had secured commitments for the Private Placement of Class B Shares in connection with the LXR Acquisition.

On April 17, 2017, Gibraltar Growth filed a non-offering long form preliminary prospectus in respect of the LXR Acquisition, and on May 12, 2017, Gibraltar Growth obtained its receipt from securities regulators for the public filing of its non-offering long form final prospectus in respect of the LXR Acquisition.

On June 9, 2017, LXR International and Gibraltar Growth announced the completion of the LXR Acquisition and the closing of the Private Placement. In connection with the closing of the LXR Acquisition, Gibraltar Growth was renamed to LXRandCo, Inc. The adjusted purchase price of the LXR Acquisition was established based on an equity value of approximately \$72 million. The purchase price is subject to working capital adjustments to be finalized within a period of 90 days.

As described in note 1, the LXR Acquisition is outside the scope of IFRS 3 and is accounted for as an equity-settled share-based payment transaction in accordance with IFRS 2. The excess of the fair value of the shares deemed to have been issued by LXR International over the assets acquired and liabilities assumed, was recorded as an expense in the consolidated statement of loss. The fair value of the shares deemed to have been issued is based on the estimated fair value at the acquisition date, using management's best estimates of the fair value using the data available at the acquisition date.

Details of the LXR Acquisition are summarized as follows:

	\$
Assets acquired	
Cash	19,004,989
Accounts receivable and other receivable	460,486
	<u>19,465,475</u>
Liabilities assumed	
Accounts payable and income tax payable	810,840
Net assets acquired	<u>18,654,635</u>
Fair value of shares deemed to have been issued by LXR International (<i>note 9</i>)	32,744,377
Excess of LXR fair value over net assets acquired	<u>14,089,742</u>

The Company incurred legal and other costs of \$774,785 in connection with the LXR Acquisition that were recorded in net loss.

Notes to the condensed interim consolidated financial statements

(in Canadian dollars, except share information)

Three-month and six-month periods ended June 30, 2017 and 2016

Unaudited

3. Summary of significant accounting policies

These condensed interim consolidated financial statements have been prepared in accordance with IAS 34, Interim Financial Reporting, as issued by the International Accounting Standards Board ("IASB") and have been prepared on a historical cost basis, except for stock options, warrants and convertible redeemable preferred shares that are classified as financial liabilities at fair value through profit or loss and measured at fair value.

Accordingly, these condensed interim consolidated financial statements do not include all of the financial statement disclosures required for annual financial statements and should be read in conjunction with LXR International's audited consolidated financial statements for the year ended December 31, 2016, which have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the IASB. In management's opinion, the unaudited condensed interim consolidated financial statements reflect all the adjustments that are necessary for a fair presentation of the results for the interim period presented. These condensed interim consolidated financial statements have been prepared using the accounting policies and methods of computation as outlined in note 2 of the consolidated financial statements for the year ended December 31, 2016.

The preparation of condensed interim consolidated financial statements requires management to make estimates and assumptions using judgments that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses during the reporting period. Estimates and other judgments are continually evaluated and are based on management's experience and other factors, including expectations about future events that are believed to be reasonable under the circumstances. Actual results may differ from those estimates.

In preparing these unaudited condensed interim consolidated financial statements, critical judgements made by management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those referred to in note 4 of LXR International's consolidated financial statements for the year ended December 31, 2016, except for judgements and estimates made on the accounting of the LXR Acquisition.

LXRandCo's business has demonstrated some seasonality to date, but with only a slightly higher proportion of net revenue generated during the second half of the year. Retail sales will vary by quarter based on consumer spending behaviour. The Company is able to adjust certain variable costs in response to any seasonal revenue patterns; however, certain costs are fixed. Historically, the Company's revenues and earnings are higher in the fourth quarter due to the holiday season.

These condensed interim consolidated financial statements are presented in Canadian dollars, which is also the functional currency of the Company and the primary economic environment in which the Company operates.

The Company's condensed interim consolidated financial statements for the three-month and six-month periods ended June 30, 2017 were authorized for issuance in accordance with a resolution of the Board of Directors on August 14, 2017.

Notes to the condensed interim consolidated financial statements

(in Canadian dollars, except share information)

Three-month and six-month periods ended June 30, 2017 and 2016

Unaudited

4. Future changes in accounting principles

Standards issued but not yet effective. The Company has not yet early adopted these new standards.

IFRS 9, "Financial Instruments" ("IFRS 9") partially replaces the requirements of IAS 39, "Financial Instruments: Recognition and Measurement". This standard is the first step in the project to replace IAS 39. The IASB intends to expand IFRS 9 to add new requirements for the classification and measurement of financial liabilities, derecognition of financial instruments, impairment and hedge accounting to become a complete replacement of IAS 39. These changes are applicable for annual periods beginning on or after January 1, 2018, with earlier application permitted. The Company is currently assessing the impact of adopting this standard on the consolidated financial statements and related note disclosures.

IFRS 15, "Revenue from Contracts with Customers" ("IFRS 15") replaces IAS 11, "Construction Contracts", and IAS 18, "Revenue", as well as various interpretations regarding revenue. This standard introduces a single model for recognizing revenue that applies to all contracts with customers, except for contracts that are within the scope of standards on leases, insurance and financial instruments. This standard also requires enhanced disclosures. Adoption of IFRS 15 is mandatory and will be effective for annual periods beginning on or after January 1, 2018. The Company is currently assessing the impact of adopting this standard on the Company's consolidated financial statements and related note disclosures.

IFRS 16, "Leases" ("IFRS 16") replaces IAS 17, "Leases". This standard provides a single model for leases abolishing the current distinction between finance and operating leases, with most leases being recognized in the statement of financial position. Certain exemptions will apply for short-term leases and leases of low value assets. The new standard will be effective for annual periods beginning on or after January 1, 2019. Early application is permitted, provided the new revenue standard, IFRS 15, has been applied, or is applied at the same date as IFRS 16. The Company is currently assessing the impact of adopting this standard on its consolidated financial statements and related note disclosures.

5. Business combination

On January 7, 2017, as part of a strategic decision to better integrate the Company's omni-channel strategy and improve the reporting of its entire operations, the Company re-acquired control of an associate, Groupe Global LXR Inc. ("Global") by repurchasing the interest of Global that it did not own for total consideration of \$3,384,086 through the issuance of 59,558 convertible redeemable preferred shares of the Company. Global sells high quality pre-owned products through LXRandCo's e-Commerce website lxrco.com.

The assets acquired, liabilities assumed and results of operations have been consolidated as of the effective date of January 1, 2017. The excess of the purchase price over tangible assets, identifiable intangible assets acquired and liabilities assumed was recorded as goodwill. The purchase price of the business combination entered into has been allocated to assets acquired and liabilities assumed based on their estimated fair values at the acquisition date, using management's best estimates of the fair values using the data available at the acquisition date.

The Company is still evaluating the fair value of certain intangible assets. Therefore, the final allocation of the purchase price has not been completed. Goodwill, intangible assets and future income taxes will be adjusted once completed. The Company recognized a gain resulting from a business acquisition of \$2,070,422 arising from the fair value of its existing ownership interest in Global.

LXRandCo, Inc.

Notes to the condensed interim consolidated financial statements

(in Canadian dollars, except share information)

Three-month and six-month periods ended June 30, 2017 and 2016

Unaudited

Details of the business combination, accounted for by using the acquisition method, are summarized as follows

	\$
Assets acquired	
Cash	803,661
Accounts receivable and other receivable	30,208
Income tax receivable	99,395
Inventory	127,717
Prepaid expenses	2,907
Property and equipment	1,608
Goodwill and intangibles	3,040,954
	<u>4,106,450</u>
Liabilities assumed	
Accounts payable and accrued liabilities	341,127
Loan payable to related parties	381,237
	<u>722,364</u>
Net assets acquired	<u>3,384,086</u>
Purchase price consideration	
Issuance of 59,558 convertible redeemable preferred shares	<u>3,384,086</u>

6. Credit facility

On June 9, 2017, concurrent with the closing of the LXR Acquisition, the Company repaid a revolving term loan and a capital expenditure term loan that it had with Sterling National Bank. Accordingly, the balance of unamortized financing costs of incurred to arrange those facilities was expensed in the six-month period ended on June 30, 2017 and recorded as debt extinguishment costs.

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

The Credit Facility bears interest at (a) the bank's prime rate (2.7% as at June 30, 2017) or U.S. base rate if denominated in U.S. dollars (4.25% as at June 30, 2017) plus an applicable margin of 0.50%, (b) the banker's acceptance rate (0.93% as at June 30, 2017), plus an applicable margin of 2.00% or LIBOR (0.46% as at June 30, 2017) plus an applicable margin of 2.00%, at the Company's option. A commitment fee of 0.25% of the unused portion of the Credit Facility is also due. The Credit Facility matures on June 14, 2019. No amount was drawn as at June 30, 2017.

The Credit Facility can be used to enter into foreign exchange contracts not exceeding a maximum amount of \$1,000,000, secured by forward exchange contracts entered into by the Company. The Credit Facility can also be used to issue letters of credit for a maximum and not exceeding amount of \$2,000,000.

The Credit Facility is collateralized by substantially all assets of the Company and its subsidiaries. The Credit Facility requires the Company to meet certain financial covenants, which were all met as at June 30, 2017.

LXRandCo, Inc.

Notes to the condensed interim consolidated financial statements

(in Canadian dollars, except share information)

Three-month and six-month periods ended June 30, 2017 and 2016

Unaudited

7. Long-term debt

	June 30, 2017	December 31, 2016
	\$	\$
Subordinated debt of \$1,500,000 from the Business Development Bank of Canada ("BDC") (i)	—	1,495,644
Bonus payment (i)	—	637,375
	—	2,133,019
Term loans from Investissement Québec ("IQ") (ii)	272,444	369,944
Term loans from BDC	—	106,508
Capital expenditure term loan (iii)	—	228,778
Other term loans	36,177	190,504
Total long-term debt	308,621	3,028,753
Current portion	281,525	2,841,026
	27,096	187,727

(i) Subordinated debt with BDC

On August 15, 2013, the Company, through its wholly-owned subsidiary LXR Canada Inc., obtained financing of \$1,500,000 from BDC in the form of an unsecured debt maturing on August 15, 2018, bearing interest at an annual rate of 8.75%. Upon maturity, the Company was required to remit an additional compensation in the form of a bonus payment representing 1.2% of the Company's consolidated value as defined in a formula in the agreement. Under the terms of the agreement, the Company was also required to remit monthly a royalty of 0.30% of consolidated annual sales.

The subordinated debt requires that certain financial covenants be maintained on a consolidated basis, which were not all met for the year ended December 31, 2016. On April 12, 2017, the Company obtained a confirmation from BDC, waiving its rights, arising from the breach of the covenants as at December 31, 2016, to demand repayment for a period of more than one year from the financial position date. Through issuance of the waiver, the Company and BDC amended the subordinated agreement to fix the bonus payment to 1.2% of \$60,000,000 which was payable at the earlier of the maturity date or the closing of the LXR Acquisition (*note 1*). On June 9, 2017, concurrent with the closing of the LXR Acquisition, the Company repaid the outstanding balance of the subordinated debt, including the final bonus payment and royalty, for a total amount of \$2,383,106.

(ii) Term loans with IQ

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

- (a) Term loan of \$300,000 bearing interest at the bank's prime rate (2.7% as at June 30, 2017 and December 31, 2016) plus an applicable margin of 3%. The loan is repayable by forty-eight monthly principal payments of \$6,250 with a 12-month moratorium from June 1, 2015 to May 31, 2016. The loan matures on November 30, 2017. As at June 30, 2017, the long-term debt obligation under this loan amounted to \$31,250 (December 31, 2016 – \$68,750).

LXRandCo, Inc.

Notes to the condensed interim consolidated financial statements

(in Canadian dollars, except share information)

Three-month and six-month periods ended June 30, 2017 and 2016

Unaudited

- (b) Term loan of \$600,000 bearing interest at the bank's prime rate (2.7% as at June 30, 2017 and December 31, 2016) plus an applicable margin of 3%. The loan is repayable by sixty monthly principal payments of \$10,000 with a 12-month moratorium from June 1, 2015 to May 31, 2016. The loan matures on April 30, 2019. As at June 30, 2017, the long-term debt obligation under this loan amounted to \$230,000 (December 31, 2016 – \$290,000).
- (c) Term loan of \$225,000 bearing interest at the bank's prime rate (2.7% as at June 30, 2017 and December 31, 2016) plus an applicable margin of 2.15%. The loan serves to finance investment tax credits receivable for 2014 and 2015, thus is repayable upon their respective receipt. The loan matures in December, 2017. As at June 30, 2017, the long-term debt obligation under this loan was \$11,194 (December 31, 2016 – \$11,194).

These term loans require that certain financial covenants be maintained by LXR Canada Inc., which were not all met for the year ended December 31, 2016. On May 9, 2017, the Company obtained confirmation from IQ waiving its rights, arising from the breach of the covenants as at December 31, 2016, to demand repayment for a period of more than one year from the financial position date.

(iii) Capital expenditure term loan

On January 15, 2016, the Company entered into a credit agreement (*note 6*) which included a capital expenditure term loan facility in the amount of US\$350,000 for the purpose of purchasing eligible equipment.

On June 9, 2017, concurrent with the closing of the LXR Acquisition, the Company repaid the capital expenditure term loan outstanding (*note 6*).

8. Convertible redeemable preferred shares

Issued

Unlimited number of the following classes of shares:

	Number	Amount \$
Convertible redeemable preferred shares of LXR International		
Balance, January 1, 2017	351,667	19,982,261
Exercise of warrants	130,039	7,388,273
Issuance of convertible redeemable preferred shares	59,558	3,384,086
	<u>541,264</u>	<u>30,754,620</u>
Dividends payable in convertible redeemable preferred shares		
Balance, January 1, 2017	11,641	661,442
Dividends declared for the period	1,079	61,308
	<u>12,720</u>	<u>722,750</u>
Warrants to purchase convertible redeemable preferred shares		
Balance, January 1, 2017	195,100	9,582,300
Exercise of warrants	(130,039)	(6,386,841)
Expiration of warrants	(65,061)	(3,195,459)
	<u>—</u>	<u>—</u>
	<u>553,984</u>	<u>31,477,370</u>
Conversion into common shares of LXR International	(553,984)	(31,477,370)
Balance, June 30, 2017	<u>—</u>	<u>—</u>

LXRandCo, Inc.

Notes to the condensed interim consolidated financial statements

(in Canadian dollars, except share information)

Three-month and six-month periods ended June 30, 2017 and 2016

Unaudited

On June 10, 2016, the Company issued 351,667 convertible redeemable preferred shares, representing 26% of the Company's share capital, to a group of unrelated investors as part of the first closing of an equity financing, for total consideration of \$2,704,333. The financing was extended to January 31, 2017 to accommodate potential additional closings. The convertible redeemable preferred shares were convertible at the option of the holders into Class A common shares of LXR International at a rate of one Class A common share for one convertible redeemable preferred share and are mandatorily redeemable on June 17, 2019, at their initial share price of \$7.69 plus any unpaid annual cumulative dividends of 6%.

The convertible redeemable preferred shares were designated as a financial liability at fair value through profit or loss. Accordingly, the Company recorded an increase in fair value of \$17,277,928 as at December 31, 2016 resulting from an increase in valuation. The fair value of the Company and of the resulting convertible redeemable preferred shares was determined by using the most recent equity transaction entered into by LXR International with non-related parties and was established at an enterprise value of \$56.82 per share.

The Company granted warrants for the purchase of convertible redeemable preferred shares. The warrants had an expiration date of January 31, 2017 and entitled the holders to purchase up to 195,100 convertible redeemable preferred shares of the Company at a share price of \$7.69. As at December 31, 2016, consistent with the fair value valuation methodology applied to the convertible redeemable preferred shares, the Company recorded the fair value of the outstanding warrants at \$49.13 per warrant. On January 30, 2017, the Company issued 130,039 convertible redeemable preferred shares at \$7.69 per share for proceeds of \$1 million in connection with the exercise of these warrants. The Company's share price was unchanged as at January 31, 2017, and accordingly, no fair value adjustment was recorded in the period on the remaining unexercised warrants. Upon expiration of the remaining unexercised warrants on January 31, 2017, the Company recorded a gain from the reduction of the related liability of \$3,195,459.

The Company re-acquired control of Global (*note 5*) by repurchasing the interest of Global that it did not own for total consideration of \$3,384,086 through the issuance of 59,558 convertible redeemable preferred shares..

On March 31, 2017, the Board of Directors approved a payment in kind of the unpaid cumulative dividends of 6% in the normal course and in accordance with the terms of the convertible redeemable preferred shares shareholders' agreement. Accordingly, the Company issued 1,079 convertible redeemable preferred shares (11,641 as at December 31, 2016) and, consistent with the fair value valuation methodology applied to that financial instrument, recorded an amount of \$722,750 as dividend payable on such convertible redeemable preferred shares (\$661,442 as at December 31, 2016).

On June 9, 2017, concurrent with the closing of the LXR Acquisition, the convertible redeemable preferred shares, including the declared dividends payable, were converted into 553,984 common shares of LXR International, which were then exchanged in favor of 2,711,964 Class B common shares of LXRandCo.

LXRandCo, Inc.

Notes to the condensed interim consolidated financial statements

(in Canadian dollars, except share information)

Three-month and six-month periods ended June 30, 2017 and 2016

Unaudited

9. Share capital

Issued

An unlimited number of the following classes of shares with no par value:

Class B common shares, voting and fully participating

	Number	Amount \$
Balance, January 1, 2017	3,126,563	100
Conversion of Class A shares of Gibraltar Growth	294,699	—
Issued in a Private Placement	2,500,000	—
Conversion of convertible redeemable preferred shares <i>[note 8]</i>	—	31,477,370
Issued in LXR Acquisition	7,123,586	32,744,377
Balance, June 30, 2017	13,044,848	64,221,847

On June 9, 2017, concurrent with the closing of the LXR Acquisition, the convertible redeemable preferred shares having a net book value of \$31,477,370, including the declared dividends payable in convertible redeemable preferred shares, were converted into 553,984 common shares of LXR International increasing the total of LXR International common shares to 1,553,984. The common shares of LXR International were ultimately exchanged in favor of 7,123,586 common shares of the Company for a total fair value consideration of \$32,744,377.

Forfeitable founders' shares

At June 30, 2017, the Company had issued 1,357,656 Class B common shares, in two tranches of 678,828 and 678,828 which are subject to forfeiture on June 9, 2022, unless the closing price of share price of the Class B common shares exceeds \$13.00 and \$15.00, respectively (as adjusted for stock split or combinations, stock dividends, reorganizations, or recapitalizations) for any 20 trading days within a 30 day-trading-day period.

Warrants

As at June 30, 2017, 10,861,250 warrants to purchase common shares of the Company are outstanding. Each warrant became exercisable 30 days after the completion of a Qualifying Acquisition, and is exercisable to purchase one Class B common share at an exercise price of \$11.50 per share. The Warrants will expire on the fifth anniversary after the completion of the LXR Acquisition.

Stock-based compensation

Under the Company's stock option plan, the Board of Directors (the "Board") is authorized, at its discretion, to issue stock options to its employees, directors, officers, consultants and other service providers.

LXRandCo, Inc.

Notes to the condensed interim consolidated financial statements

(in Canadian dollars, except share information)

Three-month and six-month periods ended June 30, 2017 and 2016

Unaudited

LXR International granted on February 16, 2017, as part of a newly-instituted employee stock option program, 62,334 options to purchase common shares of LXR International at \$7.69 per common share. The options vest at 25% on the first anniversary of the grant date and yearly thereafter (on each anniversary of such date) to the fourth anniversary of the grant date, and shall remain exercisable up to February 16, 2027. On June 9, 2017, concurrent with the closing of the LXR Acquisition, the 62,334 options granted were exchanged in favor of 285,744 options to purchase common shares of LXRandCo (the "Replacement Options"). The Replacement Options provide an optionnee to purchase common shares of LXRandCO at a price of \$1.68 per share and the terms and conditions of the replacement options have remained the same as the initial terms and conditions.

Since the options modifications reduce the total fair value of the Replacement Options related share-based payment arrangement, the Company continues to account for the cost of compensation services received as consideration for the equity instruments granted as if the replacement had not occurred.

The fair value of stock options granted estimated at the date of grant using the Black-Scholes option pricing model and the following assumptions:

	June 30, 2017	December 31, 2016
Expected volatility	32% yearly	—
Risk-free interest rate	1.48%	—
Expected option life	6.25 years	—
Expected dividend yield	—	—

The stock option activity and the weighted average exercise price are summarized as follows:

	June 30, 2017		December 31, 2016	
	Number	Weighted average exercise price \$	Number	Weighted average exercise price \$
Outstanding at beginning of period	—	—	—	—
Granted	285,744	1.68	—	—
Outstanding at end of period	285,744	1.68	—	—
Option exercisable at end of period	—	—	—	—

The weighted average remaining contractual term of options exercisable at June 30, 2017 was 9.7 years.

The weighted average grant-date fair value of equity instruments granted during the three-month period ended June 30, 2017 amounted to approximately \$49 per option, which represents the fair value of the equity options granted by LXR International. The compensation expense of \$185,731 and \$236,625 for the three-month and six-month periods ended on June 30, 2017 is recorded in the condensed interim consolidated statements of loss and comprehensive loss through selling, general and administrative expenses and credited to additional paid-in capital.

LXRandCo, Inc.

Notes to the condensed interim consolidated financial statements

(in Canadian dollars, except share information)

Three-month and six-month periods ended June 30, 2017 and 2016

Unaudited

As at June 30, 2017, the total remaining unrecognized compensation expense related to non-vested stock options amounted to \$2,827,238, which will be recognized over the weighted average remaining requisite service period of 3.8 years.

10. Earnings per share

For the three-month and six-month periods ended on June 30, 2017 and 2016, as a result of the net loss during those periods, the warrants, stock-based awards and convertible redeemable preferred shares are anti-dilutive.

11. Selling, general and administrative expenses

Included in selling, general and administrative expenses are the following expenses:

	For the three-month period ended June 30		For the six-month period ended June 30	
	2017	2016	2017	2016
	\$	\$	\$	\$
Wages, salaries and employee benefits	1,802,496	1,017,563	3,368,664	1,952,207
Stock-based compensation	185,731	—	236,625	—
Head office rent expense	31,498	68,275	63,826	138,380
Store-related opening and closing costs	43,140	60,115	67,004	68,000
Other selling, general and administrative	747,944	367,507	1,219,675	569,317
	2,810,809	1,513,460	4,955,794	2,727,904

12. Segment information

The Company has determined that it conducts its activities in a single industry segment as an omni-channel retailer, being the only operating segment it uses to evaluate performance and allocate resources by the Chief Executive Officer (the chief operation decision maker). The single operating segment includes all sales channels accessed by the Company's customers, including sales through the Company's retail network of stores, wholesale partners and online through its website. With respect to geographic areas, the Corporation's continuing operations are mainly in Canada, the United States and Europe.

The following table summarizes net revenue by geography for the period ended:

	For the three-month period ended June 30		For the six-month period ended June 30	
	2017	2016	2017	2016
	\$	\$	\$	\$
Canada	1,527,342	643,109	2,821,029	1,579,020
United States	4,658,939	3,459,905	8,809,788	6,315,326
Europe	988,441	33,937	1,689,867	87,481
	7,174,723	4,136,951	13,320,685	7,981,827