Condensed interim consolidated financial statements

LXRandCo, Inc.

Three-month period ended March 31, 2018 and 2017

LXRandCo, Inc.

Consolidated statements of financial position

(in Canadian dollars)

As at		Unaudited
		(Restated – See note 3)
	March 31, 2018	December 31, 2017
	$	$
Asset *(note 6)*		
Current		
Cash	8,494,597	4,015,025
Accounts receivable	2,766,450	4,968,344
Sales tax receivable	1,134,217	280,439
Inventory	19,850,247	15,829,739
Right of return asset *(note 3)*	85,297	42,162
Prepaid expenses and deposits	378,095	367,079
Total current assets	32,708,903	25,502,788
Property and equipment, net	3,497,935	3,044,726
Intangible assets, net	842,214	661,808
Other assets	112,682	112,682
Goodwill *(note 5)*	5,023,074	5,023,074
	42,184,808	34,345,078
Liabilities and shareholders' equity		
Current		
Accounts payable and accrued liabilities	4,308,504	5,829,675
Income tax payable	489,464	497,811
Deferred revenue	60,493	64,961
Refund liabilities *(note 3)*	170,594	84,323
Current portion of long-term debt *(note 7)*	158,944	188,810
Total current liabilities	5,187,999	6,665,580
Long-term debt *(note 7)*	20,642	22,929
Credit facility and line of credit *(note 6)*	8,795,075	8,189,476
Other liabilities	132,641	159,097
Deferred income taxes	261,466	216,851
Total liabilities	14,397,823	15,253,933
Shareholders' equity		
Share capital *(note 8)*	77,898,724	64,897,185
Deficit	(51,240,206)	(46,913,803)
Additional paid-in capital	1,687,486	1,621,168
Accumulated other comprehensive loss	(559,019)	(513,405)
Total shareholders' equity	27,786,985	19,091,145
	42,184,808	34,345,078

See accompanying notes

On behalf of the Board:

Director Director

LXRandCo, Inc.

Consolidated statements of income (loss) and comprehensive income (loss)

(in Canadian dollars, except share information)

Three-months ended March 31 | Unaudited

	2018	(Restated – See note 12) 2017
	$	$
Net revenue *(note 11)*	9,972,514	6,145,962
Cost of sales	7,613,693	4,341,454
Gross profit	2,358,821	1,804,508
Selling, general and administration expense *(note 10)*	6,270,727	2,734,716
Amortization and depreciation expenses	270,027	82,992
Results from operating activities	(4,181,933)	(1,013,200)
Finance costs	277,415	358,571
Foreign exchange loss (gain)	(176,945)	69,080
Convertible redeemable preferred share dividends	—	61,308
Non-recurring gain from a step business combination *(note 5)*	—	(2,070,422)
Gain on expiration of warrants	—	(3,195,459)
Income (loss) before income taxes	(4,282,403)	3,763,722
Income tax expense		
Current	—	1,120
Deferred	44,000	—
	44,000	1,120
Net income (loss) for the period	(4,326,403)	3,762,602
Other comprehensive income (loss)		
Cumulative translation adjustment	(45,614)	(95,724)
Comprehensive income (loss) for the period	(4,372,017)	3,666,878
Income (loss) per share *(note 9)*		
Basic	(0.28)	0.82
Fully diluted	(0.28)	0.53
Weighted average number of shares outstanding *(note 9)*		
Basic	15,676,012	4,584,080
Fully diluted	15,676,012	7,190,058

See accompanying notes

LXRandCo, Inc.

Consolidated statements of changes in shareholders' equity (deficiency)

(in Canadian dollars)

	Share capital $	Deficit $	Additional paid-in capital $	Cumulated translation adjustment $	Total shareholders' deficiency $
Balance as at December 31, 2016	100	(28,961,429)	—	(172,824)	(29,134,153)
Net income as previously reported	—	4,352,333	—	—	4,352,333
Stock-based compensation expense	—	—	50,894	—	50,894
Cumulative translation adjustment	—	—	—	(95,724)	(95,724)
Balance as at March 31, 2017, as previously reported	**100**	**(24,609,096)**	**50,894**	**(268,548)**	**(24,826,650)**
Restatement of stock-based compensation expense *[note 12]*	—	(589,731)	589,731	—	—
Balance as at March 31, 2017, restated *[note 12]*	**100**	**(25,198,827)**	**640,625**	**(268,548)**	**(24,826,650)**
Net loss for the period	—	(21,714,976)	—	—	(21,714,976)
Stock-based compensation expense	—	—	980,543	—	980,543
Cumulative translation adjustment	—	—	—	(244,857)	(244,857)
Conversion of convertible redeemable preferred shares	31,477,370	—	—	—	31,477,370
Class B common shares issued in Qualifying acquisition	33,419,715	—	—	—	33,419,715
Balance as at December 31, 2017	64,897,185	(46,913,803)	1,621,168	(513,405)	19,091,145
Net loss for the period	—	(4,326,403)	—	—	(4,326,403)
Stock-based compensation expense	—	—	114,963	—	114,963
Cumulative translation adjustment	—	—	—	(45,614)	(45,614)
Common shares issued	14,324,625	—	—	—	14,324,625
Equity issuance costs	(1,373,458)	—	—	—	(1,373,458)
Exercise of stock-options	50,372	—	(48,645)	—	1,727
Balance as at March 31, 2018	77,898,724	(51,240,206)	1,687,486	(559,019)	27,786,985

See accompanying notes

LXRandCo, Inc.

Consolidated statements of cash flows

(in Canadian dollars)

Three-months ended March 31	Unaudited (Restated – See note 12) 2018	2017
	$	$
Operating activities		
Net income (loss) for the period	**(4,326,403)**	3,762,602
Non-cash items:		
Depreciation of property and equipment	**201,229**	60,748
Amortization of intangible assets	**68,798**	22,244
Amortization of deferred financing costs	**84,181**	170,398
Stock-based compensation expense *(note 8)*	**88,507**	640,625
Unrealized foreign exchange (gain) loss on non-monetary assets	**(67,431)**	120,260
Non-recurring gain from a step business combination	—	(2,070,422)
Convertible redeemable preferred share dividends	—	61,308
Deferred income tax expense	**44,000**	—
Gain on expiration of warrants	—	(3,195,459)
Interest accretion expense on subordinated debt	—	18,279
	(3,907,119)	(409,417)
Net change in non-cash working capital balances related to operations	**(4,303,573)**	(2,658,772)
Cash flows used in operating activities	**(8,210,692)**	(3,068,189)
Investing activities		
Acquisition of intangible assets	**(214,982)**	(129,113)
Acquisition of property and equipment	**(604,304)**	(75,190)
Cash acquired from a business combination *(note 5)*	—	803,661
Cash flows provided by (used in) investing activities	**(819,286)**	599,358
Financing activities		
Net increase in credit facility	**521,378**	1,157,898
Repayment of long-term debt	**(32,153)**	(238,853)
Payment of financing costs	—	(61,731)
Proceeds from issuance of common shares	**14,324,625**	—
Payment of equity issuance costs	**(1,373,458)**	—
Exercise of stock-options	**1,727**	—
Proceeds from issuance of redeemable preferred shares	—	1,000,000
Cash flows provided by financing activities	**13,442,119**	1,857,314
Effect of exchange rate changes on cash	**67,431**	(8,205)
Net decrease in cash during the period	**4,479,572**	(619,722)
Cash, beginning of period	**4,015,025**	938,966
Cash, end of period	**8,494,597**	319,244
Supplementary information (as reported in operating activities)		
Income taxes paid	—	—
Interest paid	**90,621**	129,889
Convertible preferred shares issued in a business combination *(note 5)*	—	3,384,086

See accompanying notes

Notes to the condensed interim consolidated financial statements

(in Canadian dollars, except share information)

Three-month periods ended March 31, 2018 and 2017 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 e-Commerce operations including its own website and through the websites of several of its retail partners. LXRandCo is incorporated and domiciled in Canada. The Company's legal registered address is at 130 Adelaide Street West, Toronto, Ontario, M5H 3P5 and its operating head office is located at 40 Jean-Talon Street West, Montréal, Québec, Canada, H2R 2W5. The Company also maintains an office in Tokyo, Japan.

As at March 31, 2018, LXRandCo's retail network consisted of 135 stores located as follows: 99 in the United States, 14 in Germany, four in Belgium, four in the Netherlands, five in the United Kingdom and nine in Canada.

Retail sales are traditionally higher in the fourth quarter due to the holiday season.

On April 17, 2017, Gibraltar Growth Corporation ("Gibraltar Growth") filed a non-offering long form preliminary prospectus in respect of the acquisition of LXR Produits de Luxe International Inc. (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, Gibraltar Growth, the predecessor of the Company, completed the acquisition of LXR Produits de Luxe International Inc. ("LXR International") 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.

(in Canadian dollars, except share information)

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.

Details of the LXR Acquisition are summarized as follows:

	$
Assets acquired	
Cash	19,004,989
Accounts receivable and other receivable	460,486
	19,465,475
Liabilities assumed	
Accounts payable and income taxes payable	409,318
Net assets acquired	19,056,157
Fair value of shares deemed to have been issued by LXR International (note 13)	33,419,715
Excess of LXR fair value over net assets acquired	14,363,558

2. 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 LXRandCo's audited consolidated financial statements for the year ended December 31, 2017, 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, 2017, except for the adoption of new standards in effect as of January 1, 2018 described in note 3. The Company has not early adopted any other standard, interpretation or amendment that has been issued but is not yet in effect.

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 the consolidated financial statements for the year ended December 31, 2017.

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 period ended March 31, 2018 were authorized for issuance in accordance with a resolution of the Board of Directors on May 3rd, 2018.

3. Adoption of new accounting standards

IFRS 15 *Revenue from Contracts with Customers*

The Company applies, for the first time, IFRS 15 *Revenue from Contracts with Customers* and IFRS 9 *Financial Instruments*. The application of these new standards did not have an impact on the interim condensed consolidated financial statements of the Company.

IFRS 15 supersedes IAS 18 Revenue and related Interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

(i) Sale of goods

The Company's contracts with customers for the sale of goods include one performance obligation. The Company has concluded that revenue from sale of goods should be recognised at the point in time when control of the good is transferred to the customer, generally recorded at the point of sale for retail and upon receipt of the goods by the customer for e-Commerce sales. Revenue from wholesale operations and hybrid stores is recognized upon shipment of the merchandise. The Company does not generally grant right of returns to wholesale customers.

The adoption of IFRS 15 did not have an impact on the timing of revenue recognition.

(ii) Variable consideration

The Company provides retail store customers with a minimal right to return within a short specified period for store credit only while the Company provides e-Commerce customers a minimal right to return within a specified period for store credit or cash refund. Prior to the adoption of IFRS 15, the Company recognised revenue from the sale of goods measured at the fair value of the consideration received or receivable, net of discounts, rebates, estimated returns and sales taxes.

Under IFRS 15, rights of return give rise to variable consideration. The variable consideration is estimated at contract inception and constrained until the associated uncertainty is subsequently resolved.

Rights of return

When a contract provides a customer with a right to return the goods within a short specified period, the Company previously estimated expected returns using accumulated experience. IFRS 15 requires to use the expected value method, which is similar to a probability-weighted average amount approach. Prior to adoption of IFRS 15, the amount of revenue related to the expected returns was deferred and recognized in the statement of financial position with deferred revenue with a corresponding adjustment to cost of sales. The initial carrying amount of goods expected to be returned was included within inventory.

Under IFRS 15, the consideration received from the customer is variable because the contract allows the customer to return the products. The Company uses the expected value method to estimate the goods that will be returned because this method best predicts the amount of variable consideration to which the Company will be entitled. The Company applies the requirements in IFRS 15 on constraining estimates of variable consideration to determine the amount of variable consideration that can be included in the transaction price. The Company presents a refund liability and an asset for the right to recover products from a customer separately in the statement of financial position. Upon adoption of IFRS 15, the Company reclassified the provision for the right of return from deferred revenue to Refund liabilities and the related return asset from Inventories to Right of return assets.

The statement of financial position as at 31 December 2017 was restated resulting in recognition of Right of return assets and Refund liabilities amounting to $42,162 and $84,323, respectively and decreases in deferred revenue and inventory amounting to $84,323,and $42,162, respectively.

The Company adopted IFRS 15 using the full retrospective method of adoption.

IFRS 9 *Financial Instruments*

IFRS 9 *Financial Instruments* replaces IAS 39 *Financial Instruments: Recognition and Measurement* for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

Classification and Measurement

IFRS 9 provides a single model for financial asset classification and measurement that is based on both the business model for managing financial assets and the contractual cash flow characteristics of the financial assets.These factors determine whether the financial assets are measured at amortized cost, fair value through other comprehensive income, or fair value through profit or loss.

The classification and measurement of financial liabilities remain essentially unchanged under IFRS 9, except for financial liabilities designated as measured at fair value through profit or loss under the fair value option. Once the fair value election is made, changes in fair value attributable to changes in an entity's own credit risk must be recognized in Other comprehensive income rather than in net income.

Impairment

The adoption of IFRS 9 has changes the accounting for impairment losses for financial assets by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss ("ECL") approach. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the entities expects to receive. The shortfall is then discounted at an approximation to the asset's original effective interest rate.

For Trade and other receivables, the Company has applied the standard's simplified approach and has calculated ECLs based on lifetime expected credit losses. The Company has established a provision matrix that is based on the Company's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The adoption of IFRS 9 did not have an impact on the Company's consolidated financial statements.

4. Future changes in accounting principles

Standards issued but not yet effective

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 reacquired 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 is the subsidiary of the Company that is responsible for the LXR's Canadian and U.S. e-Commerce operations through its website, www.lxrco.com.

(in Canadian dollars, except share information)

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 recognized a gain resulting from a business acquisition of $2,070,422 arising from the fair value of its existing ownership interest in Global.

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	30,228
Inventory	54,933
Prepaid expenses	2,907
Tangible and intangible assets	184,064
Goodwill	2,952,652
	4,028,445
Liabilities assumed	
Accounts payable and accrued liabilities	341,254
Loan payable to related parties	303,105
	644,359
Net assets acquired	3,384,086
Purchase price consideration	
Issuance of 59,558 convertible redeemable preferred shares	3,384,086

6. Credit facility

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

The Line of Credit bears interest at (a) the bank's prime rate (3.45% as at March 31, 2018; 3.2% as at December 31, 2017) or U.S. base rate if denominated in U.S. dollars (4.75% as at March 31, 2018; 4.5% as at December 31, 2017) plus an applicable margin of 0.50%, or (b) the banker's acceptance rate (1.57% as at March 31, 2018; 1.37% as at December 31, 2017), plus an applicable margin of 2.00% or LIBOR (1.88% as at March 31, 2018; 1.56% as at December 31, 2017) plus an applicable margin of 2.00%, at the Company's option. A commitment fee of 0.25% of the unused portion of the Line of Credit is also due. The Line of Credit matures on June 14, 2019 and accordingly, it is presented as a long-term liability. As at March 31, 2018, the Company had drawn $9,123,869 on the available balance (The Company had drawn $8,602,491 on the available balance as at December 31, 2017). The Company incurred $610,231 of financing costs attributable to the issuance of the Line of Credit. As at March 31, 2018, unamortized financing costs recorded as reduction of the Line of Credit amount to $328,794 ($413,015 as at December 31, 2017).

The Line of Credit 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 Line of Credit can also be used to issue letters of credit not exceeding a maximum amount of $2,000,000.

The Line of Credit is collateralized by substantially all assets of the Company and its subsidiaries. The Line of Credit requires the Company to meet certain financial covenants, which were all met as at March 31, 2018 and December 31, 2017.

7. Long-term debt

	March 31, 2018	December 31, 2017
	$	$
Term loan of $600,000 bearing interest at the bank's prime rate (3.45% as at March 31, 2018 and 3.2% as at December 31, 2017) plus an applicable margin of 3%. The loan is repayable by sixty monthly principal payments of $10,000. The loan matures on April 30, 2019. The term loan requires that certain financial covenants be maintained by the Company, which were not all met as at March 31, 2018 and December 31, 2017. Accordingly, the Company presented this term loan as a current liability on the consolidated statements of financial position.	**150,000**	180,000
Other term loans	**29,586**	31,739
Total long-term debt	**179,586**	211,739
Current portion	**158,944**	188,810
	20,642	22,929

Notes to the condensed interim consolidated financial statements

(in Canadian dollars, except share information)

Three-month periods ended March 31, 2018 and 2017 — Unaudited

8. 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, 2018	12,946,484	64,897,185
Share issuance, net of issuance cost (note 2)	2,728,500	12,951,167
Exercise of stock-options	1,028	50,372
Balance, March 31, 2018	**15,676,012**	**77,898,724**

On February 12, 2018, the Company issued 2,728,500 Class B common shares at a price of C$5.25 per share for gross proceeds of $14,324,625. The Company incurred $1,373,458 of share issuance costs that were recorded as a reduction of the related equity proceeds.

Forfeitable founders' shares

At March 31, 2018, 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 March 31, 2018, 10,861,250 warrants to purchase common shares of the Company are oustanding. 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.

(in Canadian dollars, except share information)

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.

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 favour of 285,744 options to purchase Class B common shares of LXRandCo (the "Replacement Options"). The Replacement Options provide an optionnee to purchase Class B 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 is estimated at the date of grant using the Black-Scholes option pricing model and the following assumptions:

	March 31, 2018	December 31, 2017
Expected volatility	—	32% yearly
Risk-free interest rate	—	1.48%
Expected option life	—	6.25 years
Expected dividend yield	—	—

(in Canadian dollars, except share information)

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

	March 31, 2018		December 31, 2017	
	Number	Weighted average exercise price	Number	Weighted average exercise price
		$		$
Outstanding at beginning of period / year	281,798	1.68	—	—
Granted	—	—	285,744	1.68
Forfeited/Cancelled	(17,447)		(3,946)	1.68
Exercised	(1,028)	1.68	—	—
Outstanding at end of period / year	263,323	1.68	281,798	1.68
Option exercisable at end of period / year	103,649	1.68	48,765	1.68

The weighted average remaining contractual term of options exercisable as at March 31, 2018 was 8.9 years.

The weighted average grant-date fair value related to the equity instruments granted during the year ended December 31, 2017 amounted to approximately $49 per option, which represents the fair value of the equity options granted by LXR International. The stock-based compensation expense is recorded in the consolidated statements of loss and comprehensive loss in selling, general and administrative expenses and credited to additional paid-in capital. The stock-based compensation for the three-month period ended on March 31, 2018 amounted to $114,963 ($640,625 for the three-month period ended on March 31, 2017),

As at March 31, 2018, the total remaining unrecognized compensation expense related to non-vested stock options amounted to $762,649 ($1,890,693 as at December 31, 2017), which will be recognized over the weighted average remaining requisite service period of 3 years.

Deferred share unit plan

Deferred share units ("DSUs") are awarded to eligible directors under a preliminary deferred share unit plan. Under this plan, each eligible director receives a portion of his or her compensation in the form of DSUs. The value of a granted DSU is calculated based on the 5-day variable weighted average share price of the Company leading up to the end of the quarter the closest to the DSU grant date. The plan has been approved by the Board of Directors in 2017 but subject to the approval of the Toronto Stock Exchange.

(in Canadian dollars, except share information)

During the three-month period ended March 31, 2018, the Company granted to directors 25,512 DSUs and recognized a compensation expense of $135,375 for its deferred share unit plan under stock-based compensation expense. The total DSUs granted to directors as at March 31, 2018 amount to 55,816 [2017 – 30,304]. As at March 31, 2018, the Company re-assessed the value of the vested and granted DSU based on the closing price of the Class B common shares of the Company on the Toronto Stock Exchange and recorded a reduction in fair value of $161,831 through stock-based compensation expense. The outstanding DSUs are presented as other liabilities in the consolidated statements of financial position.

9. Earnings per share (“EPS”)

For the three-month period ended on March 31, 2018, as a result of the net loss during this period, the warrants and stock-based awards did not impact diluted EPS because they are anti-dilutive. The following reflects the income and share data used in the basic and diluted EPS computations for the three-month periods ended on March 31, 2018 and 2017:

	For the three months ended	
	March 31, 2018	March31, 2017
	$	$
Net income (loss) for basic EPS	**(4,326,403)**	3,762,602
Dividends on redeemable convertible preferred shares	—	61,308
Adjusted net income (loss) for diluted EPS	**(4,326,403)**	3,823,910
Weighted average number of shares outstanding — basic	**15,676,012**	4,584,080
Convertible redeemable preferred shares	—	2,499,563
Stock-based awards	—	106,415
Weighted average number of shares — fully diluted	**15,676,012**	7,190,058

Notes to the condensed interim consolidated financial statements

(in Canadian dollars, except share information)

Three-month periods ended March 31, 2018 and 2017 | Unaudited

10. Selling, general and administrative expenses

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

	For the three-month period ended March 31	
	2018	2017
	$	$
Wages, salaries and employee benefits	**5,115,727**	1,515,274
Stock-based compensation	**88,507**	640,625
Head office rent expense	**60,894**	32,328
Store-related opening and closing costs	**—**	23,864
Other	**1,005,599**	522,625
	6,270,727	2,734,716

11. 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 operating 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 Company's continuing operations are mainly in Canada, the United States, the United Kingdom and European Union. The following table summarizes revenue by geography for the period ended:

	March 31, 2018	March 31, 2017
	$	$
Canada	**1,109,976**	1,146,270
United States	**7,686,792**	4,332,671
United Kingdom	**159,895**	—
European Union	**1,015,851**	667,021
	9,972,514	6,145,962

Notes to the condensed interim consolidated financial statements

(in Canadian dollars, except share information)

Three-month periods ended March 31, 2018 and 2017 Unaudited

12. Comparative information

During the finalization of the year ended December 31, 2017 financial results, the Company corrected its stock-based compensation expense to conform with the requirements of IFRS 2 regarding the measurement of the stock-based compensation expense using graded-vesting and measurement and recognition of certain non-employee share-based awards granted during the three-month period ended March 31, 2017. Therefore, the Company has restated its previously reported condensed interim consolidated financial statements as at and for the three-month period ended March 31, 2017 and all related disclosures. The annual consolidated financial statements as at and for the year ended December 31, 2017 are not affected by the restatement. Accordingly, selling, general and administrative expenses were increased and net income was reduced by $589,731, respectively. As at March 31, 2017, retained earnings were reduced and additional paid-in capital was increased by $589,731, respectively. For the consolidated statement of cash flows, net income was reduced by $589,731, and stock-based compensation expense was increased by $589,731, having no impact of the amount reported under cash used in operating activities.