



MAV

BEAUTY BRANDS

2018 FINANCIAL RESULTS

*MAV Beauty Brands is a high-growth global personal care company dedicated to providing consumers with premium quality, authentic and differentiated products. Our innovation-focused, next generation platform consists of complementary and rapidly growing personal care brands: Marc Anthony True Professional, Rempure and Cake Beauty. Our products include a wide variety of hair care, body care and beauty products such as shampoo, conditioner, hair styling products, treatments, body wash, and body and hand lotion across multiple collections that each serve a different and personalized consumer need. Our products are sold in over 30 countries around the world, in over 100 major retailers and through over 60,000 doors.*

MARC ANTHONY®  
TRUE PROFESSIONAL

cake.

Rempure.  
plant based beauty.

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# Consolidated financial statements of MAV Beauty Brands Inc.

December 31, 2018 and 2017  
(in US dollars)

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## Independent Auditor's Report

To the Shareholders and the Board of Directors 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, 2018 and 2017, and the consolidated statements of operations and comprehensive (loss) income, changes in shareholders' equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

### Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards ("Canadian GAAS"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the 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 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.

### Other Information

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

Our opinion on the 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 financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the 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 on this other information, 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 Financial Statements**

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

In preparing the 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 Financial Statements**

Our objectives are to obtain reasonable assurance about whether the 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 GAAS 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 financial statements.

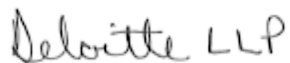
As part of an audit in accordance with Canadian GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the 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 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 financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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.

The engagement partner on the audit resulting in this independent auditor's report is Anthony (Tony) Nicolaou.

A handwritten signature in dark ink that reads "Deloitte LLP". The signature is written in a cursive, flowing style.

Chartered Professional Accountants  
Licensed Public Accountants  
Toronto, Ontario  
March 28, 2019

**MAV Beauty Brands Inc.****Consolidated statements of operations and comprehensive (loss) income**

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

	Notes	Year ended December 31, 2018	Year ended December 31, 2017
		\$	\$
<b>Revenue</b>	5	<b>94,039</b>	42,368
Cost of sales		<b>51,222</b>	16,933
Gross profit		<b>42,817</b>	25,435
<b>Expenses</b>			
Selling and administrative	18	<b>26,701</b>	10,878
Foreign exchange (gain) loss		<b>(570)</b>	67
Amortization and depreciation		<b>3,007</b>	2,238
Finance and other charges	11	<b>25,889</b>	9,347
		<b>55,027</b>	22,530
(Loss) income before income taxes		<b>(12,210)</b>	2,905
<b>Income tax (recovery) expense</b>			
Deferred	13	<b>(1,808)</b>	889
		<b>(1,808)</b>	889
<b>Net (loss) income and comprehensive (loss) income for the year</b>		<b>(10,402)</b>	2,016
Net (loss) earnings per common share			
Basic		<b>(0.43)</b>	0.22
Diluted		<b>(0.43)</b>	0.08
Weighted average number of common shares outstanding	6		
Basic		<b>24,421,661</b>	9,355,587
Diluted		<b>35,168,710</b>	24,315,061

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 except for share and per share amounts unless otherwise noted)

	Notes	As at December 31, 2018 \$	As at December 31, 2017 \$
<b>Assets</b>			
Current assets			
Cash		5,841	1,249
Trade and other receivables	7	19,462	7,676
Inventories	8	21,214	5,265
Prepaid expenses		3,025	1,232
		49,542	15,422
Non-current assets			
Property and equipment	5, 9	518	390
Deferred tax asset	13	588	—
Intangible assets	10	142,218	92,627
Goodwill	10	165,199	85,766
		358,065	194,205
<b>Liabilities</b>			
Current liabilities			
Accounts payable and accrued liabilities		18,076	9,222
Deferred revenue		107	103
Provision for returns and markdowns	20	172	265
Current portion of deferred consideration	4	738	—
Current portion of borrowings	12	—	3,771
		19,093	13,361
Non-current liabilities			
Deferred tax liability	13	9,553	11,283
Deferred consideration	4	2,329	—
Borrowings	12	111,206	83,185
Preferred shares	15	—	53,731
		142,181	161,560
<b>Shareholders' equity</b>			
Share capital	14	224,961	33,604
Equity-settled employee benefits reserve	16	2,587	303
Deficit		(11,664)	(1,262)
		215,884	32,645
		358,065	194,205

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

*Signed "Marc Anthony Venere", Director**Signed "Stephen Smith", Director*

# MAV Beauty Brands Inc.

## Consolidated statements of changes in shareholders' equity

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

	Notes	Equity-settled employee benefits			Total
		Shares	reserve	Deficit	
		\$	\$	\$	\$
Opening balance as at January 1, 2017		33,604	—	(3,278)	30,326
Net income		—	—	2,016	2,016
Recognition of share-based payments	16	—	303	—	303
Balance as at December 31, 2017		33,604	303	(1,262)	32,645
<b>Opening balance as at January 1, 2018</b>		<b>33,604</b>	<b>303</b>	<b>(1,262)</b>	<b>32,645</b>
Net loss		—	—	(10,402)	(10,402)
Recognition of share-based payments	16	—	2,284	—	2,284
Issuance of share capital (net of issuance costs)	14	119,528	—	—	119,528
Preferred share conversion	14, 15	71,829	—	—	71,829
<b>Balance as at December 31, 2018</b>		<b>224,961</b>	<b>2,587</b>	<b>(11,664)</b>	<b>215,884</b>

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 except for share and per share amounts unless otherwise noted)

	Notes	Year ended December 31, 2018	Year ended December 31, 2017
		\$	\$
<b>Operating activities</b>			
Net (loss) income for the period		(10,402)	2,016
Adjustments to net (loss) income for non-cash items			
Depreciation of property and equipment	9	274	112
Amortization of intangible assets	10	2,733	2,126
Amortization of deferred financing costs and debt discounts	12	709	676
Accretion on deferred consideration	4	335	—
Remeasurement of deferred consideration	4	738	—
Debt extinguishment costs	12	9,184	—
Share-based payments	16	2,284	303
Unrealized foreign exchange (gain) loss		(188)	16
Deferred income taxes		(1,808)	889
		3,859	6,138
Changes in non-cash working capital	21	(10,762)	(3,483)
		(6,903)	2,655
<b>Investing activities</b>			
Purchase of property and equipment		(309)	(269)
Business acquisitions	4	(111,615)	—
Proceeds from sale of assets	4	396	—
		(111,528)	(269)
<b>Financing activities</b>			
Issuance of common shares (net of issuance costs)	14	90,547	—
Issuance of preferred shares	15	18,098	—
Proceeds received under non-revolving term loan	12	207,700	—
Deferred financing costs	12	(4,009)	—
Prepayment fees paid on extinguishment of debt	12	(3,395)	—
Drawdown of revolving facilities	12	13,000	500
Repayment of borrowings and revolving facilities	12	(198,918)	(4,771)
		123,023	(4,271)
Increase (decrease) in cash		4,592	(1,885)
Cash, beginning of period		1,249	3,134
<b>Cash, end of period</b>		<b>5,841</b>	<b>1,249</b>

**Supplemental information**

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

# **MAV Beauty Brands Inc.**

## **Notes to the consolidated financial statements**

December 31, 2018 and 2017

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

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### **1. Description of the business**

MAV Beauty Brands Inc. (formerly known as MAC Topco Holdings Inc.) (or 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 190 Pippin Road, Vaughan, Ontario, Canada, L4K 4X9.

On July 10, 2018, the Company closed its initial public offering (the “IPO”) of common shares (the “Shares”) at a price of CAD \$14.00 per Share. The IPO included a treasury offering by the Company and a secondary offering of Shares by the selling shareholders. The Company sold 9,000,000 Shares and the selling shareholders sold 8,267,000 Shares under the IPO that resulted in net proceeds to the Company of CAD \$119,385,000 and net proceeds to the selling shareholders of CAD \$109,661,775 after underwriting commissions but before deducting other expenses of the IPO. The Company did not receive any proceeds from the secondary offering. In addition to the underwriting fees that were paid by the Company and selling shareholders, other expenses net of costs deducted from share capital related to the Offering and Secondary Offering of approximately \$4,336 net of tax were incurred and were paid by the Company. The Company’s common shares are listed on the Toronto Stock Exchange (“TSX”) under the stock symbol “MAV”.

### **2. Standards issued and adopted**

#### IFRS 15

Effective January 1, 2018, the Company adopted International Financial Reporting Standards (“IFRS”) 15 Revenue from Contracts with Customers (“IFRS 15” or “the new standard”). IFRS 15 replaces International Accounting Standard (“IAS”) 18, Revenue, IAS 11, Construction contracts, and related interpretations on revenue. The new standard sets out the requirements for recognizing revenue that apply to all contracts with customers, except for contracts that are within the scope of the standards on leases, insurance contracts and financial instruments and certain non-monetary exchanges. Under the new standard, a company recognizes revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services, using a control based approach. IFRS 15 includes a five-step process to achieve this principle and, in doing so, it is possible more judgment and estimates may be required within the revenue recognition process than are required under previous IFRSs, including estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation.

The Company has adopted IFRS 15 using the modified retrospective approach and has elected to apply the standard only to contracts that are not completed as of January 1, 2018.

The Company’s accounting policies for its revenue streams are disclosed in detail in Note 3. Apart from providing more extensive disclosures on the Company’s revenue transactions, the application of IFRS 15 did not have a significant impact on the financial position and/or financial performance of the Company.

## **MAV Beauty Brands Inc.**

### **Notes to the consolidated financial statements**

December 31, 2018 and 2017

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

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## **2. Standards issued and adopted (continued)**

### IFRS 9

Effective January 1, 2018, the Company adopted IFRS 9, *Financial Instruments* ("IFRS 9") and as permitted by the transitional provisions in IFRS 9, the Company elected not to restate comparative figures. IFRS 9 introduces new requirements for classification and measurement of financial assets and financial liabilities, impairment for financial assets and hedge accounting. IFRS 9 replaces the 'incurred loss' model in IAS 39 - Financial Instruments, with an 'expected credit loss' ("ECL") model. The new impairment model applies to financial assets measured at amortized cost and under IFRS 9, credit losses are recognized earlier than under IAS 39.

- Cash, trade and other receivables classified as Loans and receivables are now classified as Amortized cost.
- Financial liabilities classified as Amortized cost under IAS 39 continue to be classified as such under IFRS 9.

The adoption of IFRS 9 did not have a significant impact on the financial position and/or financial performance of the Company.

### IFRS 2

Effective January 1, 2018, the Company adopted the amendments to IFRS 2, *Share-based Payments*, clarifying the accounting for certain types of share-based payment transactions. The amendments provide requirements on accounting for the effects of vesting and non-vesting conditions of cash-settled share-based payments, withholding tax obligations for share-based payments with a net settlement feature, and when a modification to the terms of a share-based payment changes the classification of the transaction from cash-settled to equity-settled. The adoption of IFRS 2 did not have a significant impact on the financial position and/or financial performance of the Company.

## **3. Significant accounting policies**

### Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and include the accounts of the Company and the subsidiaries over which the Company has control.

These consolidated financial statements were approved by the Board of Directors on March 28, 2019.

### Basis of measurement

The consolidated financial statements are prepared on a going concern basis, under the historical cost convention except for the revaluation of certain financial assets and liabilities to fair value. All financial information is presented in US dollars, unless otherwise noted.

### Share consolidation

As a result of the 4.7206-to-1 share consolidation, effected July 10, 2018, all current and historical period per share data and number of common shares, Class A and B preferred shares (as defined in Note 15) and options outstanding in these consolidated financial statements are presented on a post share consolidation basis.

## **MAV Beauty Brands Inc.**

### **Notes to the consolidated financial statements**

December 31, 2018 and 2017

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

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### **3. Significant accounting policies (continued)**

#### *Basis of consolidation*

The consolidated 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.

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 income from the date the Company gains control until the date when the Company ceases to control the subsidiary. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Company's accounting policies.

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

#### *Revenue Recognition*

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

For sales to distributors, revenues are recognized when control of the goods have transferred to the distributor, which is dependent on specific shipping terms. Following shipping, the distributor has full 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 immediately at the point in which control transfers.

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

The Company conducts extensive promotional activities, primarily through the use of cooperative advertising, coupons, in-store displays, slotting fees and other funded costs from retail partners. The costs of such activities are recorded as a reduction of the transaction price over the period in which the goods or services are transferred to the customer, to the extent the consideration is not in exchange for a distinct good or service. Refer to Note 5 for segment information, which aligns with the disaggregation of revenues requirements.

**MAV Beauty Brands Inc.****Notes to the consolidated financial statements**

December 31, 2018 and 2017

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

**3. Significant accounting policies (continued)**Trade and other receivables

Trade and other receivables are measured at amortized cost, net of expected credit losses ("ECLs"). The Company determines ECLs based on historical credit losses, which are used to calculate run rates of default. The historical results are adjusted for forward looking estimates. 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 selling price during the normal course of business less estimated selling expenses.

Property and equipment

Property and equipment are stated at cost, less accumulated depreciation and any accumulated impairment losses. Assets are depreciated over their estimated useful lives. Significant parts 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	Declining balance	20%
Computer equipment	Declining balance	30%
Printing plates and dies	Straight-line	2 years
Leasehold improvements	Straight-line	5 years

Intangible assets

Intangible assets are stated at cost, less accumulated amortization and any accumulated impairment losses, and consist of brand names and customer lists. 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 Cosmetics, Renpure and Cake brand names are considered to have an indefinite life based on a history of strong revenue and cash flow performance and the intent and ability of the Company to support the brands with spending to maintain their value for the foreseeable future. The assessment of indefinite life is reviewed annually to determine whether 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.



## **MAV Beauty Brands Inc.**

### **Notes to the consolidated financial statements**

December 31, 2018 and 2017

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

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### **3. Significant accounting policies (continued)**

#### *Intangible assets (continued)*

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) income over its estimated useful life.

#### *Goodwill*

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. 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 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 fair value less costs of disposal, 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) income.

As disclosed in Note 5, the Company has one reportable segment and goodwill has been fully allocated to this segment as it represents the lowest level at which the management monitors goodwill.

The VIU calculation for the recoverable amount of the CGUs to which goodwill has been allocated includes estimates about their future financial performance based on cash flows approved by management and the Board of Directors covering a period of five years with a terminal rate. Key assumptions used in the VIU calculations are the discount rate applied and the long-term growth rate of net operating cash flows. In determining these assumptions, management has taken into consideration the current economic climate and its resulting impact on expected growth and discount rates. In determining the discount rate 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.

## **MAV Beauty Brands Inc.**

### **Notes to the consolidated financial statements**

December 31, 2018 and 2017

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

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### **3. Significant accounting policies (continued)**

#### *Impairment (continued)*

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) income. Impairment losses relating to goodwill cannot be reversed in future periods.

#### *Business combinations*

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 value 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) income. For all business acquisitions, the Company records the results of operations of the acquired entities as of their respective effective acquisition dates.

#### *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 consolidated 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 statement of financial position date. Exchange gains and losses are included in the consolidated statements of operations and comprehensive (loss) income.

## **MAV Beauty Brands Inc.**

### **Notes to the consolidated financial statements**

December 31, 2018 and 2017

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

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

The income tax expense 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.

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 they can be used in the future.

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

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 our 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.

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 permitted, offset against tax assets within the same taxable entity and tax jurisdiction.

## MAV Beauty Brands Inc.

### Notes to the consolidated financial statements

December 31, 2018 and 2017

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

### 3. Significant accounting policies (continued)

#### *Financial instruments*

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

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

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

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

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

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

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) income. 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) income.

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
Preferred shares	Amortized cost
Deferred consideration	FVTPL

## **MAV Beauty Brands Inc.**

### **Notes to the consolidated financial statements**

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### **3. Significant accounting policies (continued)**

#### 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).

#### Earnings per share

Basic earnings per share is computed by dividing the net (loss) income available to common shareholders by the weighted average number of shares outstanding during the reporting period. Diluted earnings per share is computed similarly to basic earnings per share except that the weighted average number of shares outstanding is increased to include additional shares for the assumed conversion of preference 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.

#### Critical accounting estimates and judgments

The preparation of the consolidated financial statements in conformity with IFRS requires management to make estimates, assumptions and judgments that affect the reported amounts of assets, liabilities, revenue and expense for the year. Such estimates relate to unsettled transactions and events as of the date of the consolidated financial statements. Accordingly, actual results may differ from estimated amounts as transactions are settled in the future. Estimates and assumptions are reviewed on an ongoing basis. Revisions to estimates are applied prospectively.

The following are the critical judgments that management made in applying the Company's accounting policies and that have the most significant effect on amounts recognized in the consolidated financial statements:

#### *(a) Provision for returns and markdowns*

The provision for returns represents management's best estimate of the value of the products sold in the current financial year that may be returned in a future year. The provision for markdowns represents management's best estimate of inventory on hand for which the net realizable value is less than cost.

#### *(b) Provision for expected credit losses*

The Company is exposed to credit risk associated with its trade receivables. 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.

## MAV Beauty Brands Inc.

### Notes to the consolidated financial statements

December 31, 2018 and 2017

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

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### 3. Significant accounting policies (continued)

#### *Critical accounting estimates and judgments (continued)*

##### *(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) Functional currency*

The Company assesses the relevant factors related to the primary economic environment in which its entities operate to determine the functional currency. Where the assessment of primary indicators is mixed, management assesses the secondary indicators, including the relationship between the foreign operations and reporting entity.

##### *(e) Useful lives of property and equipment and intangible assets*

The Company reviews the estimated useful lives of property and equipment and intangible assets at the end of each reporting period. The assessment of any impairment of property and equipment and intangible assets is dependent upon estimates of recoverable amounts based on the higher of fair value less cost to sell ("FVLCTS") or VIU calculation that takes into account factors such as economic conditions and the useful life.

##### *(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 International Accounting Standard ("IAS") 36 Impairment of assets.

Management is required to use judgment in determining the grouping of assets to identify their CGUs for the purposes of testing non-financial assets for impairment. In addition, judgment is used to determine whether a triggering event has occurred requiring an impairment test to be completed. 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 or a group of CGUs, various estimates are employed. The recoverable amount of a CGU is the higher of the estimated fair value less costs of disposal or VIU of the CGU. The Company determines VIU by using estimates including projected future revenues, margins, and capital investment consistent with strategic plans presented to the Board. Fair value less costs of disposal are estimated with reference to observable market transactions. Discount rates are consistent with external industry information reflecting the risk associated with the Company and cash flows.

##### *(g) Business combinations*

In a business combination, the identifiable assets acquired and liabilities assumed will be recognized at their fair values. The Company makes judgements 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 recognised in the consolidated statements of operations and comprehensive income.

## MAV Beauty Brands Inc.

### Notes to the consolidated financial statements

December 31, 2018 and 2017

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

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### 3. Significant accounting policies (continued)

#### Critical accounting estimates and judgments (continued)

##### *(h) Income taxes*

The calculation of income taxes 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.

Management judgment is used to determine the amounts of deferred tax assets and liabilities and future tax liabilities to be recognized. In particular, judgment is required when assessing the timing of the reversal of temporary differences to which future income tax rates are applied.

##### *(i) Deferred tax assets*

The amount of deferred tax assets is estimated with consideration given to the timing, sources and amounts of future taxable income.

##### *(j) 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.

##### *(k) Fair value of deferred consideration*

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.

#### Standards issued but not yet effective

The following new standards have been issued, but are not effective for the current fiscal year, and have not been applied in preparing these consolidated financial statements. Future changes to our existing accounting policies and other note disclosures may result.

##### *(a) Leases*

In January 2016, the International Accounting Standards Board ("IASB") issued IFRS 16, *Leases* ("IFRS 16"), replacing IAS 17, *Leases* and related interpretations. The standard provides a new framework for lessee accounting that requires substantially all assets obtained through operating leases to be capitalized and a related liability to be recorded. The new standard seeks to provide a more accurate picture of a company's leased assets and related liabilities and create greater comparability between companies who lease assets and those who purchase assets. IFRS 16 becomes effective for annual periods beginning on or after January 1, 2019.

IFRS 16 is expected to have a material impact on the Company's consolidated statements of financial position, with the addition of approximately \$3,000 of lease liabilities and right-of-use assets. Lease-related expenses previously recorded in selling and administrative expenses, will be recorded as depreciation on the right-of-use assets and a finance charge from unwinding the discount on the lease liabilities.



## **MAV Beauty Brands Inc.**

### **Notes to the consolidated financial statements**

December 31, 2018 and 2017

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### **3. Significant accounting policies (continued)**

#### *Standards issued but not yet effective (continued)*

##### *(a) Leases (continued)*

IFRS 16 will also change the presentation of cash flows relating to leases in the Company's consolidated statements of cash flows but does not cause a difference in the amount of cash transferred between the parties of a lease.

IFRS 16 will be applied for the 2019 annual fiscal period using the modified retrospective approach and the Company will therefore not be restating comparative information. The Company does not expect a material adjustment to opening deficit on January 1, 2019.

##### *(b) Definition of Material*

In October 2018, the IASB issued amendments to IAS 1 - Presentation of Financial Statements and IAS 8 - Accounting Policies, Changes in Accounting Estimates and Errors, clarifying the definition of material. Under the amended definition, information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general-purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. The amendments also clarify the explanations accompanying the definition of material. The amendments are effective January 1, 2020 and are required to be applied prospectively. Early application is permitted. The implementation of these amendments is not expected to have a significant impact on the Company.

##### *(c) Definition of Business*

In October 2018, the IASB issued amendments to IFRS 3 - Business Combinations. The amendments narrowed and clarified the definition of a business. The amendments will help companies determine whether an acquisition is a business or a group of assets. They also permit a simplified assessment of whether an acquired set of activities and assets is a group of assets rather than a business. Distinguishing between a business and a group of assets is important because an acquirer recognizes goodwill only when acquiring a business. The amendments apply to transactions for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2020. Earlier adoption is permitted. The implementation of these amendments is not expected to have a significant impact on the Company.

**MAV Beauty Brands Inc.****Notes to the consolidated financial statements**

December 31, 2018 and 2017

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

**4. Business combinations***Cake Beauty*

On January 23, 2018, the Company acquired 100% of the common shares of Cake Beauty Inc. ("Cake"), a hair care and beauty company, for a total cash consideration of approximately \$1,750 along with an earnout based on operating profit from continuing and new business. The earnout was accounted for as an acquisition related contingent consideration and measured at fair value. The following table sets out the allocation of the purchase price to assets and liabilities acquired:

	January 23, 2018
	\$
<b>Purchase consideration</b>	
Cash	1,744
Acquisition related contingent consideration	2,240
	<b>3,984</b>
<b>Fair value of net identifiable assets acquired</b>	
Trade and other receivables	170
Inventories	334
Prepaid expenses	14
Property and equipment	64
Deferred tax liability	(315)
Accounts payable and accrued liabilities	(367)
Brand name	763
Customer list	361
	<b>1,024</b>
<b>Goodwill</b>	<b>2,960</b>
	<b>3,984</b>

The fair value measurement of the deferred consideration is determined using unobservable (level 3) inputs. These inputs include: (i) the estimated amount and timing of the projected cash flows on which the contingency is based; and (ii) the risk-adjusted discount rate used to present value those cash flows.

During the year ended December 31, 2018, the Company has revised its estimate of the amounts payable under the Cake deferred consideration arrangement and recognized a loss on remeasurement of contingent consideration in the amount of \$738, recorded in financing and other charges in the consolidated statements of operations and comprehensive (loss) income.

**MAV Beauty Brands Inc.****Notes to the consolidated financial statements**

December 31, 2018 and 2017

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

**4. Business combinations (continued)***Renpure*

On March 8, 2018, the Company acquired 100% of the units of Renpure, LLC and Onesta Hair Care, LLC (collectively, "Renpure"), both personal care product companies, for total consideration of \$140,040. During the year ended December 31, 2018, the cash purchase price was adjusted based on the final closing date net working capital, which resulted in a reduction of the purchase price of \$2,000. The acquisitions were funded through a combination of debt and equity. The following table sets out the allocation of the purchase price to assets and liabilities acquired:

	<b>March 8, 2018</b>
	<b>\$</b>
<b>Purchase consideration</b>	
Cash (net of working capital adjustment of \$2,000)	<b>110,040</b>
Common shares	<b>28,000</b>
	<b>138,040</b>
<b>Fair value of net identifiable assets acquired</b>	
Cash	<b>169</b>
Trade and other receivables	<b>4,720</b>
Prepaid expenses	<b>429</b>
Inventories	<b>9,388</b>
Property and equipment	<b>29</b>
Accounts payable and accrued liabilities	<b>(3,985)</b>
Deferred tax liability	<b>(383)</b>
Brand name	<b>40,400</b>
Customer relationships	<b>10,800</b>
	<b>61,567</b>
<b>Goodwill</b>	<b>76,473</b>
	<b>138,040</b>

For the period from March 8 to December 31, 2018, Renpure contributed revenue of \$40,468 and net income of \$5,837 to the Company's results. If the acquisition had occurred on January 1, 2018, management estimates that consolidated revenue would have been \$102,629, and consolidated net (loss) and comprehensive (loss) would have been \$(8,509). In determining these amounts, management has assumed that the fair value adjustments that arose on the date of acquisition would have been the same if the acquisition had occurred on January 1, 2018.

Both acquisitions were accounted for as business combinations using the acquisition method with the results of operations consolidated with the Company from the date of acquisition. The goodwill recognized is attributable mainly to expected future growth potential and expected synergies. Goodwill arising from the Cake acquisition is not deductible for tax purposes, but goodwill arising from the Renpure acquisition is deductible for tax purposes. The brands arising from both acquisitions are considered indefinite life assets as the Company see no foreseeable limit to the period over which the assets are expected to generate net cash inflows for the Company. On May 4, 2018, the Company sold substantially all of the assets and related liabilities of Onesta Hair Care, LLC to Onesta Acquisition, LLC (a related party through common ownership) in exchange for cash consideration of \$396.

## MAV Beauty Brands Inc.

### Notes to the consolidated financial statements

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#### 5. Segment information

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

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

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

Revenue from external customers	
Year ended December 31, 2018	Year ended December 31, 2017
\$	\$
Canada/US	34,444
International	7,924
<b>94,039</b>	<b>42,368</b>

Property and equipment	
As at December 31, 2018	As at December 31, 2017
\$	\$
Canada/US	390
International	—
<b>518</b>	<b>390</b>

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

#### 6. Earnings per share

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

The weighted average number of shares is calculated by assuming that outstanding conversions were exercised and that the proceeds from such exercises were used to acquire common shares at the average market price during the year ended December 31, 2018.

**MAV Beauty Brands Inc.****Notes to the consolidated financial statements**

December 31, 2018 and 2017

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

**6. Earnings per share (continued)**

	<b>Year ended December 31, 2018</b>	<b>Year ended December 31, 2017</b>
	<b>#</b>	<b>#</b>
<b>Number of shares</b>		
Weighted number of shares used for basic earnings per share	<b>24,421,661</b>	9,355,587
Shares deemed to be issued in respect of share-based payments	<b>443,862</b>	—
Weighted number of preferred shares	<b>8,779,488</b>	14,959,474
Weighted number of proportionate voting shares	<b>1,523,699</b>	—
Weighted average number of shares used in diluted earnings per share	<b>35,168,710</b>	24,315,061

**7. Trade and other receivables**

	<b>December 31, 2018</b>	<b>December 31, 2017</b>
	<b>\$</b>	<b>\$</b>
Trade and other receivables	<b>18,148</b>	7,493
Government remittances receivable	<b>1,323</b>	192
Provision for expected credit losses	<b>(9)</b>	(9)
	<b>19,462</b>	7,676

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

	<b>December 31, 2018</b>	<b>December 31, 2017</b>
	<b>\$</b>	<b>\$</b>
0–60 days	<b>16,819</b>	4,532
61–90 days	<b>317</b>	612
91–120 days	<b>92</b>	563
121 days and older	<b>920</b>	1,786
	<b>18,148</b>	7,493

**MAV Beauty Brands Inc.****Notes to the consolidated financial statements**

December 31, 2018 and 2017

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

**7. Trade and other receivables (continued)**

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

	<b>December 31, 2018</b>	December 31, 2017
	<b>\$</b>	<b>\$</b>
Balance, beginning of period	<b>9</b>	9
Balance, end of period	<b>9</b>	9

**8. Inventories**

Inventories consist of:

	<b>December 31, 2018</b>	December 31, 2017
	<b>\$</b>	<b>\$</b>
Raw materials	<b>4,102</b>	1,131
Finished goods, packaging and marketing materials	<b>17,517</b>	4,525
Provision for inventory obsolescence	<b>(405)</b>	(391)
	<b>21,214</b>	5,265

Inventories are carried at the lower of cost and net realizable value; during the year ended December 31, 2018, inventories recognized as an expense within cost of sales amounted \$46,700 (for the year ended December 31, 2017, \$13,940).

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**9. Property and equipment**

	<b>Furniture and fixtures</b>	<b>Computer equipment</b>	<b>Printing plates and dies</b>	<b>Leasehold improvements</b>	<b>Total</b>
	\$	\$	\$	\$	\$
Opening balance as at January 1, 2017	56	58	60	59	233
Additions during the period	24	39	149	57	269
Depreciation during the period	(12)	(24)	(58)	(18)	(112)
Balance as at December 31, 2017	68	73	151	98	390
<b>Opening Balance as at January 1, 2018</b>	<b>68</b>	<b>73</b>	<b>151</b>	<b>98</b>	<b>390</b>
Additions during period	46	91	100	72	309
Business acquisitions	30	11	52	—	93
Depreciation during the period	(27)	(42)	(169)	(36)	(274)
<b>Balance as at December 31, 2018</b>	<b>117</b>	<b>133</b>	<b>134</b>	<b>134</b>	<b>518</b>

**10. Goodwill and intangible assets**

	<b>Customer list</b>	<b>Brand name</b>	<b>Total intangibles</b>	<b>Goodwill</b>
	\$	\$	\$	\$
<b>Cost</b>				
Opening balance as at January 1, 2017	33,872	61,401	95,273	85,766
Balance as at December 31, 2017	33,872	61,401	95,273	85,766
<b>Opening balance as at January 1, 2018</b>	<b>33,872</b>	<b>61,401</b>	<b>95,273</b>	<b>85,766</b>
Additions through business acquisitions	11,161	41,163	52,324	79,433
<b>Balance as at December 31, 2018</b>	<b>45,033</b>	<b>102,564</b>	<b>147,597</b>	<b>165,199</b>
<b>Accumulated amortization</b>				
Opening balance as at January 1, 2017	520	—	520	—
Amortization	2,126	—	2,126	—
Balance as at December 31, 2017	2,646	—	2,646	—
<b>Opening balance as at January 1, 2018</b>	<b>2,646</b>	<b>—</b>	<b>2,646</b>	<b>—</b>
Amortization	2,733	—	2,733	—
<b>Balance as at December 31, 2018</b>	<b>5,379</b>	<b>—</b>	<b>5,379</b>	<b>—</b>
<b>Carrying amounts</b>				
December 31, 2017	31,226	61,401	92,627	85,766
December 31, 2018	39,654	102,564	142,218	165,199



**MAV Beauty Brands Inc.****Notes to the consolidated financial statements**

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**10. Goodwill and intangible assets (continued)***Impairment*

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

The recoverable amount was determined based on the value in use ("VIU") by discounting estimated future cash flows from a CGU to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Estimated cash flows are based on management's assumptions and are supported by external information. The Company performed its annual impairment test on goodwill and indefinite-life intangible assets for all CGUs based on VIU using an after-tax discount rate of 15.0 percent and growth rates ranging from 3.0 to 28.9 percent per annum.

There was no impairment recorded as at December 31, 2018 or 2017.

**11. Finance and other charges**

	<b>Year ended December 31, 2018</b>	<b>Year ended December 31, 2017</b>
	<b>\$</b>	<b>\$</b>
Transaction costs	<b>4,324</b>	376
Interest on term loans and revolving facility	<b>10,597</b>	8,295
Prepayment fees paid on extinguishment of debt	<b>3,395</b>	—
Deferred financing costs written off on extinguishment	<b>3,694</b>	—
Debt discounts written off on extinguishment	<b>2,095</b>	—
Remeasurement of contingent consideration	<b>738</b>	—
Amortization of deferred financing costs	<b>561</b>	399
Accretion of deferred consideration	<b>335</b>	—
Accretion of subordinated notes	<b>135</b>	244
Accretion of promissory note	<b>13</b>	25
Other	<b>2</b>	8
	<b>25,889</b>	9,347

**MAV Beauty Brands Inc.****Notes to the consolidated financial statements**

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**12. Borrowings**

	Section	December 31, 2018	December 31, 2017
		\$	\$
Non-revolving term loan	(a)	107,500	—
Revolving credit facility	(a)	5,500	—
Term loans	(b)	—	70,713
Revolving commitment facility	(b)	—	500
Senior subordinated notes	(c)	—	17,048
Promissory note	(d)	—	735
		113,000	88,996
Deferred financing fees		(1,794)	(2,040)
Total borrowings		111,206	86,956
Less: current portion of borrowings		—	3,771
		111,206	83,185

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

On July 10, 2018, concurrent with the IPO, the Company settled its term loans, revolving commitment facility, senior subordinate notes and promissory note as described below and entered into a new credit facility (the "New Credit Facility"). The New Credit Facility includes (a) a revolving credit facility in the aggregate principal amount of \$20,000; (b) a non-revolving term loan credit facility in the aggregate amount of up to \$107,500; (c) an accordion feature in the amount of \$50,000 for working capital and general corporate purposes. The New Credit Facility has no fixed repayment terms and will mature on July 10, 2023. Both the term loan and revolving credit facility bear interest at LIBOR rate plus the applicable margin of 2.75% per annum.

The Company must satisfy certain financial covenants as of December 31, 2018 defined by the agreement relating to the New Credit Facility. As at December 31, 2018, the Company was in compliance with these covenants.

*(b) Term loans and revolving commitment facility*

On March 8, 2018, the Company added \$100,200 to its previous term loan borrowing facility and had fully drawn the additional amount in connection with the acquisition of Renpure. The term loans were set to mature on September 30, 2022 and bear interest at either the bank's prime interest rate or the adjusted LIBOR rate (selected by the Company) plus the applicable margin of 5.25% to 6.75% per annum.

The Company also had a revolving commitment facility totaling \$5,000.

The term loan along with the revolving commitment facility were fully settled during the year ended December 31, 2018. Deferred financing costs associated with the settled term loans and revolving commitment were fully expensed in the year ended December 31, 2018 and were charged to finance and other charges in the consolidated statements of operations and comprehensive (loss) income.

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December 31, 2018 and 2017

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

**12. Borrowings (continued)***(c) Senior subordinated notes*

The Company also issued senior subordinated notes totaling \$19,141 that bear interest at a rate of 12% per annum. The senior subordinated notes were fully settled during the year ended December 31, 2018. Both the remaining deferred financing costs and debt discount were charged to finance and other charges in the consolidated statements of operations and comprehensive (loss) income.

*(d) Promissory note*

A promissory note payable has been issued for \$849 to a shareholder on September 30, 2016 was fully settled during the year ended December 31, 2018. The promissory note's discount to face value was charged to finance and other charges in the consolidated statements of operations and comprehensive income (loss) during the year ended December 31, 2018.

Debt extinguishment costs amounted to \$9,184 in total for the year ended December 31, 2018. These costs include debt prepayment fees and write-offs of related unamortized deferred financing costs and debt discounts.

**13. Income taxes***Income tax recognized in profit or loss*

The components of the income tax expense are as follows:

	<b>December 31, 2018</b>	December 31, 2017
	<b>\$</b>	<b>\$</b>
<b>Current tax</b>		
In respect of the current year	—	—
	—	—
<b>Deferred tax</b>		
In respect of the current year	(2,125)	889
in respect of prior years	317	—
	(1,808)	889
Total income tax (recovery) expense recognized in the current year	(1,808)	889

**MAV Beauty Brands Inc.****Notes to the consolidated financial statements**

December 31, 2018 and 2017

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

**13. Income taxes (continued)***Rate reconciliation*

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

	<b>Year ended December 31, 2018</b>	Year ended December 31, 2017
	<b>\$</b>	<b>\$</b>
(Loss) income before income taxes	<b>(12,210)</b>	2,905
Income tax (recovery) expense calculated at 26.5%	<b>(3,236)</b>	770
Effect of expenses that are not deductible in determining taxable profit	<b>1,242</b>	119
Effect on changes to deferred taxes on filing of returns	<b>186</b>	—
	<b>(1,808)</b>	889

The tax rate represents the enacted federal and provincial tax rate applicable to a permanent establishment in Ontario. The decrease in income tax expense compared to prior year primarily relates to permanent differences arising on transactions undertaken in the year and a deferred tax recovery recorded in equity.

*Current tax assets*

	<b>December 31, 2018</b>	December 31, 2017
	<b>\$</b>	<b>\$</b>
<b>Current tax assets</b>		
Tax refund receivable	—	126
	—	126

**MAV Beauty Brands Inc.****Notes to the consolidated financial statements**

December 31, 2018 and 2017

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

**13. Income taxes (continued)***Deferred tax balances*

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

	<b>December 31, 2018</b>	December 31, 2017
	\$	\$
Deferred tax assets	5,223	1,322
Deferred tax liabilities	<b>(14,188)</b>	(12,605)
	<b>(8,965)</b>	(11,283)

The Company has \$2,700 of unused capital losses which can be carried forward indefinitely for which a deferred tax asset has not been recognized.

	<b>December 31, 2018</b>	December 31, 2017
	\$	\$
<i>Deferred tax (liabilities) / assets in relation to:</i>		
Intangible assets	<b>(14,188)</b>	(12,353)
Financing Costs	1,646	60
Tax losses	3,155	40
Reserves	39	306
Other	383	664
	<b>(8,965)</b>	(11,283)

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

	\$
Opening balance as at January 1, 2017	(10,394)
Deferred tax expense on the statement of operations and comprehensive (loss) income	(889)
Balance as at December 31, 2017	(11,283)
<b>Opening balance as at January 1, 2018</b>	<b>(11,283)</b>
Deferred tax recovery on the statement of operations and comprehensive (loss) income	1,808
Deferred tax on share issuance costs in equity	1,208
Deferred tax recognized on business combinations	(698)
<b>Balance as at December 31, 2018</b>	<b>(8,965)</b>

# MAV Beauty Brands Inc.

## Notes to the consolidated financial statements

December 31, 2018 and 2017

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

### 14. Share capital

#### Authorized

In connection with and immediately prior to the closing of the IPO, the Company implemented the following pre-closing capital changes (the “Pre-Closing Capital Changes”): (i) the share capital was amended such that it was comprised of 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 were consolidated on a 4.7206-for-one basis and be 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 British Columbia Business Corporation Act. Immediately prior to closing the IPO, the Company had 28,577,169 Common Shares and 3,178 Proportionate Voting Shares outstanding.

#### Issued

	Class A Number	Amount	Class B Number	Amount	Class C Number	Amount	Common Shares	Amount	Proportionate Voting Shares	Amount	Total Number	Amount
		\$		\$		\$		\$		\$		\$
<b>Balance, December 31, 2017</b>	41,038,986	31,211	3,125,000	2,393	—	—	—	—	—	—	44,163,986	33,604
Issue of share capital	—	—	—	—	21,333,942	28,000	—	—	—	—	21,333,942	28,000
Disposals share capital	—	—	—	—	—	—	—	—	—	—	—	—
Exchange for newly issued shares	(41,038,986)	(31,211)	(3,125,000)	(2,393)	(21,333,942)	(28,000)	65,497,928	61,604	—	—	—	—
Exchange of preferred shares (note 15)	—	—	—	—	—	—	84,406,921	71,829	—	—	84,406,921	71,829
Share consolidation of issued shares and preferred shares	—	—	—	—	—	—	(118,149,680)	—	—	—	(118,149,680)	—
Issue of share capital (net of issuance costs)	—	—	—	—	—	—	9,000,000	91,528	—	—	9,000,000	91,528
Proportionate voting share exchange	—	—	—	—	—	—	(3,178,000)	(44,492)	—	—	(3,178,000)	(44,492)
Proportionate voting shares									3,178	44,492	3,178	44,492
<b>Balance, December 31, 2018</b>	—	—	—	—	—	—	37,577,169	180,469	3,178	44,492	37,580,347	224,961

**MAV Beauty Brands Inc.****Notes to the consolidated financial statements**

December 31, 2018 and 2017

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

**15. Preferred shares**

The Company is authorized to issue an unlimited number of preferred shares. On September 30, 2016, the Company issued 70,617,689 Class A preferred shares for proceeds of \$53,731. On March 8, 2018, the Company issued 13,789,232 Class B preferred shares for proceeds of \$18,098. As part of the IPO, the preferred shares were exchanged for Common Shares of the Company. At the date of exchange, the preferred shares had no dividends declared or payable in arrears.

	Class A		Class B		Total	
	Number	Amount	Number	Amount	Number	Amount
		\$		\$		\$
<b>Balance, December 31, 2017</b>	70,617,689	53,731	—	—	70,617,689	53,731
Issue of share capital	—	—	13,789,232	18,098	13,789,232	18,098
Disposals share capital	—	—	—	—	—	—
Preferred share exchange (Note 14)	(70,617,689)	(53,731)	(13,789,232)	(18,098)	(84,406,921)	(71,829)
<b>Balance, December 31, 2018</b>	—	—	—	—	—	—

**16 Equity-settled employee benefits reserve**

The Company has a legacy Share Option Plan and an omnibus long term incentive plan (collectively, the “Plans”) applicable to executive officers, employees, consultants and members of the Board of Directors effective January 20, 2017. The maximum number of Common Shares which may be reserved for issuance under the Plan shall not exceed 10% of the total issued and outstanding Common Shares (assuming the conversion of all issued and outstanding Proportionate Voting Shares to Common Shares) from time to time. 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 additional 5% of the options vesting on each subsequent quarter. 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. In connection with the issuance of options to eligible participants, the Company recorded equity-settled employee benefits of \$2,284 for year ended December 31, 2018 (\$303 for year ended December 31, 2017) to reflect the share-based compensation expense relating to the Company’s Plans and is included in selling and administrative expense as follows:

	\$
Opening balance as at January 1, 2017	—
Share based compensation	303
Balance as at December 31, 2017	303
<b>Opening balance as at January 1, 2018</b>	<b>303</b>
Share based compensation	<b>2,284</b>
<b>Balance as at December 31, 2018</b>	<b>2,587</b>

The above equity-settled employee benefits reserve relates to options granted by the Company to its eligible participants under the Plans.

**MAV Beauty Brands Inc.****Notes to the consolidated financial statements**

December 31, 2018 and 2017

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

**16 Equity-settled employee benefits reserve (continued)**

The weighted average fair value of all options granted during the year ended December 31, 2018 was estimated at the date of grant to be CAD \$4.88, using the Black-Scholes option pricing model. The assumptions used to measure the fair value of options granted during the year ended December 31, 2018 under the Black Scholes option pricing model were as follows:

Expected option life (years)	5
Volatility	45%
Forfeiture rate	0%
Risk-free interest rate	1.93% - 2.00%

The following table summarizes the movement in options and the weighted average exercise price of options for the year ended December 31, 2018:

	Number of options #	average exercise price CAD\$
Options outstanding as at December 31, 2017	1,229,064	7.64
Grants	2,287,291	13.52
Forfeited	—	—
<b>Options outstanding as at December 31, 2018</b>	<b>3,516,355</b>	<b>11.46</b>

The following table summarizes information about share options outstanding and exercisable as at December 31, 2018:

	Number of options	Weighted average remaining life (in years)	December 31, 2018 Number exercisable
Exercise price (in CAD)			
4.72	722,579	3.19	238,719
6.23	148,578	3.98	9,453
7.79	81,037	4.28	—
9.44	253,242	3.15	85,596
12.46	74,289	3.98	4,727
12.68	73,529	4.83	—
13.38	33,364	4.67	—
14.00	1,721,170	4.50	—
14.16	253,242	3.15	85,596
15.58	40,518	4.28	—
18.69	74,289	3.98	4,727
23.37	40,518	4.28	—
	<b>3,516,355</b>	<b>3.99</b>	<b>428,818</b>



## **MAV Beauty Brands Inc.**

### **Notes to the consolidated financial statements**

December 31, 2018 and 2017

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

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## **17. 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 consolidated 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 credit worthiness 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, 2018, 68% of trade and other receivables is due from 3 customers (54% as at December 31, 2017).

One customer contributed 10% or more to the Company's revenue for the year ended December 31, 2018. Three customers contributed 10% or more to the Company's revenue in the year ended December 31, 2017.

#### *(b) Interest rate risk*

The Company has credit facilities for which general rate fluctuations apply. This exposes the Company to the risk of changing interest rates that may have an effect on its earnings. The Company does not use any derivative financial instruments to mitigate this risk. If interest rates had been 50 basis points higher and all other variables were held constant, the Company's profit for the year ended December 31, 2018 would decrease by \$679 (\$447 for the year ended December 31, 2017).

#### *(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.

**MAV Beauty Brands Inc.****Notes to the consolidated financial statements**

December 31, 2018 and 2017

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

**17. Financial instruments and risk management (continued)***(c) Foreign currency risk (continued)*

The consolidated statements of financial position includes the following amounts with respect to financial assets and liabilities for which cash flows are originally denominated in currencies other than U.S. dollars:

	<b>December 31, 2018</b>	<b>December 31, 2017</b>
	\$	\$
Cash	<b>3,091</b>	136
Trade and other receivables	<b>2,852</b>	1,923
Accounts payable and accrued liabilities	<b>(7,918)</b>	(7,025)
Deferred consideration	<b>(3,067)</b>	—
Borrowings	<b>—</b>	(735)

As at December 31, 2018, 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 \$504 (as at December 31, 2017, \$570) due to the fluctuation and this would be recorded in the consolidated statements of operations and comprehensive income (loss).

*Liquidity risk*

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, 2018 and 2017, the most significant financial liabilities are: borrowings, deferred consideration, accounts payable and accrued liabilities.

*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, preferred 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 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.

**MAV Beauty Brands Inc.****Notes to the consolidated financial statements**

December 31, 2018 and 2017

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

**18. Key management and related party**

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

	<b>Year ended December 31, 2018</b>	Year ended December 31, 2017
	<b>\$</b>	<b>\$</b>
Salaries	<b>1,309</b>	986
Benefits	<b>202</b>	73
Share-based compensation	<b>1,943</b>	158
	<b>3,454</b>	1,217

The Company also settled a promissory note with a shareholder and executive officer of the Company during the year ended December 31, 2018 as disclosed in Note 12.

**19. Commitments and contingencies****Operating leases**

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

	<b>\$</b>
2019	<b>329</b>
2020	<b>490</b>
2021	<b>490</b>
2022	<b>491</b>
2023	<b>494</b>
2024 and thereafter	<b>3,115</b>
	<b>5,409</b>

For the year ended December 31, 2018, the cost of operating leases recorded as an expense was \$516 (year ended December 31, 2017 - \$397).

**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 provisions have been recognized.

**MAV Beauty Brands Inc.****Notes to the consolidated financial statements**

December 31, 2018 and 2017

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

**20. Provision for returns and markdowns**

The provision for sales returns and markdowns represents the Company's best estimate of product returns from retailers and/or distributors or markdowns provided to retailers and/or distributors. The Company accrues for sales returns and markdowns at the time the product is sold and the Company accrued \$172 as at December 31, 2018 (\$265 as at December 31, 2017).

**21. Supplemental cash flow information**

The change in non-cash operating items is comprised of the following:

	<b>Year ended December 31, 2018</b>	<b>Year ended December 31, 2017</b>
	\$	\$
<b>(Increase) decrease in assets</b>		
Trade and other receivables	(7,049)	(4,051)
Inventories	(6,586)	(2,650)
Prepaid expenses	(1,350)	43
	<b>(14,985)</b>	<b>(6,658)</b>
<b>Increase (decrease) in liabilities</b>		
Accounts payable and accrued liabilities	4,312	3,198
Deferred revenue	4	(28)
Provision for returns and markdowns	(93)	5
	<b>4,223</b>	<b>3,175</b>
	<b>(10,762)</b>	<b>(3,483)</b>

The supplemental cash flow information is comprised of the following:

	<b>Year ended December 31, 2018</b>	<b>Year ended December 31, 2017</b>
	\$	\$
Shares issued for business combinations	28,000	—
Interest paid	10,632	8,295

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**MAV BEAUTY BRANDS INC.**

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 2018**

March 28, 2019

The following Management's Discussion and Analysis ("MD&A") is prepared as of March 28, 2019 and provides information concerning MAV Beauty Brands Inc.'s ("MAV Beauty Brands", the "Company", "we" or "us") financial condition and results of operations. This MD&A should be read in conjunction with our annual audited consolidated financial statements, including the related notes thereto, for the year ended December 31, 2018. This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results, performance and achievements could differ materially from those implied by these forward-looking statements as a result of various factors, particularly under "Forward-Looking Information" and "Risk Factors".

**Non-IFRS Measures**

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

**Forward-Looking Information**

Some of the information contained in this MD&A contains forward-looking information. This information may relate to our future financial outlook and anticipated events or results and include, but are not limited to, expectations regarding industry trends, our growth rates and growth strategies and other statements that are not historical facts. Particularly, information regarding our expectations of future results, targets, performance achievements, prospects or opportunities is forward-looking information. As the context requires, this may include certain targets as disclosed in the prospectus for our initial public offering, which are based on the factors and assumptions, and subject to the risks, as set out therein and herein. Often but not always, forward-looking information can be identified by the use of forward-looking terminology such as "may", "will", "expect", "believe", "estimate", "plan", "could", "should", "would", "outlook", "forecast", "anticipate", "foresee", "continue" or the negative of these terms or variations of them or similar terminology. This information is based on management's reasonable assumptions and beliefs in light of the information currently available to us and is made as of the date of this MD&A.

However, we do not undertake to update any such forward-looking information whether as a result of new information, future events or otherwise, except as required under applicable securities laws in Canada. Actual results and the timing of events may differ materially from those anticipated in the forward-looking information as a result of various factors, including those described in “Risk Factors”. Additional risks and uncertainties are discussed in the Company’s materials filed with the Canadian securities regulatory authorities from time to time, including the Company’s annual information form dated March 28, 2019 for the fiscal year ended December 31, 2018 (the “AIF”), a copy of which is available under the Company’s profile on SEDAR at [www.sedar.com](http://www.sedar.com). These factors are not intended to represent a complete list of the factors that could affect us; however, these factors should be considered carefully.

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

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

## **Basis of Presentation**

Our annual audited consolidated financial statements and the accompanying notes have been prepared in accordance with IFRS and are presented in thousands of U.S. dollars. Accordingly, unless otherwise noted herein, all financial information in this MD&A is presented in thousands of U.S. dollars. In this MD&A, references to North America refer to Canada and the United States. The Company prepared the annual audited consolidated financial statements in accordance with IFRS, using the accounting policies described in Notes 2 and 3 of the annual consolidated financial statements.

The Company and its indirect wholly owned subsidiary, Marc Anthony Cosmetics Ltd., were incorporated under the laws of British Columbia in Fiscal 2016 in connection with the acquisition of substantially all of the assets of Marc Anthony Cosmetics Inc. on September 30, 2016 (the “**2016 Acquisition**”). Accordingly, the financial information presented in this MD&A for Fiscal 2016 reflects the periods both prior to and subsequent to the 2016 Acquisition, with the periods prior to the 2016 Acquisition labeled as “predecessor” and the periods subsequent to the 2016 Acquisition labeled as “successor”. The operating results of Fiscal 2017 captures a full 12 months of operating results, whereas the Successor 2016 Period and the Predecessor 2016 Period capture only three months and nine months of operating results, respectively. In this MD&A, the Predecessor 2016 Period and the Successor 2016 Period have been separated by a black line to highlight the fact that the financial information in respect of such periods has been prepared under two different bases of accounting. The sum of the financial information for the Predecessor 2016 Period and the Successor 2016 Period is presented as “Fiscal 2016” in this MD&A. Fiscal 2016 does not purport to represent what our actual consolidated results of operations would have been had the 2016 Acquisition actually occurred on January 1, 2016, nor is it necessarily indicative of future consolidated results of operations.

All references in this MD&A to “Q4 2018” are to the three month period ended December 31, 2018, “Q4 2017” are to the three month period ended December 31, 2017, “Fiscal 2018” are to the fiscal year ended December 31, 2018 and “Fiscal 2017” are to the fiscal year ended December 31, 2017.

On January 23, 2018, Marc Anthony Cosmetics Ltd. acquired all of the shares of Cake Beauty Inc. (the “**Cake Acquisition**”) and on March 8, 2018, all of the membership interests of Renpure, LLC (the “**Renpure Acquisition**”). The annual audited consolidated financial statements of the Company for Fiscal 2018 include the results of Cake Beauty Inc. and Renpure, LLC as of their respective acquisition dates. In this MD&A, such acquisitions are referred to as the “**2018 Acquisitions**”.

The annual audited consolidated financial statements and the accompanying notes for Fiscal 2018 and this MD&A were reviewed and approved by the Company’s Board of Directors (the “**Board**”) on March 28, 2019.

## Overview

MAV Beauty Brands is a high-growth global personal care company dedicated to providing consumers with premium quality, authentic and differentiated products. Our innovation-focused, next generation platform consists of complementary and rapidly growing personal care brands: Marc Anthony True Professional, Renpure and Cake Beauty. Our products include a wide variety of hair care, body care and beauty products such as shampoo, conditioner, hair styling products, treatments, body wash, and body and hand lotion across multiple collections that each serve a different and personalized consumer need. Our products are sold in over 30 countries around the world, in over 100 major retailers and through over 60,000 doors. In North America, MAV Beauty Brands’ products are primarily sold in the FDM, club, dollar, off-price, specialty and online channels. In addition, MAV Beauty Brands has achieved tremendous success in international markets by strategically partnering with leading distributors who have strong, established relationships with major retailers across the world.

MAV Beauty Brands’ unique collection of category-leading brands are winning market share in some of the largest, fastest growing, most attractive and recession-resistant categories of the personal care industry. Within hair care and body care, our brands complement each other by targeting different rapidly growing categories. Our brands target a wide range of consumers and trends, while the distinct appeal of each brand allows them to be stocked on the same shelf without directly competing with each other. We are also expanding our brands into other adjacent complementary categories of the personal care industry. Our core brands include Marc Anthony True Professional, a pioneering brand in the Masstige category with a compelling value proposition that our consumers and retail partners continue to embrace; Renpure, a rapidly growing personal care brand focused on offering plant-based or plant-derived, naturally-inspired products, without sacrificing performance or affordability; and Cake Beauty, an experiential lifestyle brand that incorporates performance-based natural or naturally derived ingredients and provides a fun, vibrant and rich sensorial experience.

Within hair care, our largest served category today, we utilize a highly strategic pricing strategy with prices typically ranging from \$4.00 to \$12.00 per item that targets consumers looking for professional-quality products with comparable performance to Salon & Salon-Diverted products. This strategy provides products that appeal to a large number of consumers while generating more attractive shelf space economics for our retail partners than those achieved by Traditional Mass Market products.

We have strong and longstanding relationships with leading retailers, as well as distributors that sell our products internationally. Retailers have consistently supported us by increasing the number of retail stores that stock our brands and by allocating increasing shelf space to our product portfolio.

On July 10, 2018, the Company successfully closed its initial public offering (the “**IPO**”) of common shares (the “**Shares**”) at a price of CAD \$14.00 per Share. The IPO included a treasury offering by the Company and a secondary offering of Shares by entities owned, controlled or managed by TA Associates Management, L.P., Marc Anthony Venere, and the Redmond Family (collectively, the “**Selling Shareholders**”). The Company sold 9,000,000 Shares and the Selling Shareholders sold an aggregate of 8,267,000 Shares under the IPO. The Company did not receive any proceeds from the secondary offering.



## Financial Highlights

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

### *Q4 2018 Compared to Q4 2017:*

Select financial highlights include the following:

- Revenue increased by 138.7%, or \$16.8 million, to \$29.0 million in Q4 2018 compared to \$12.2 million in Q4 2017. The increase was primarily due to revenue contribution from the 2018 Acquisitions of \$17.1 million;
- Net income decreased by 25.1%, or \$0.4 million, to \$1.1 million in Q4 2018 compared to \$1.5 million in Q4 2017.
- Adjusted EBITDA increased by 27.6%, or \$1.6 million, to \$7.4 million in Q4 2018 from \$5.8 million in Q4 2017.
- Adjusted Net Income increased by 32.4%, or \$0.7 million, to \$2.7 million in Q4 2018 from \$2.0 million in Q4 2017.

<b>(in thousands of US dollars) (unaudited)</b>	<b>Q4 2018</b>	<b>Q4 2017</b>	<b>\$ Change</b>	<b>% Change</b>
<b>Consolidated statements of operations and comprehensive income:</b>				
<b>Revenue</b>	<b>29,032</b>	<b>12,164</b>	<b>16,868</b>	<b>138.7%</b>
Cost of sales	15,581	4,759	10,822	227.4%
Gross profit	13,451	7,405	6,046	81.6%
<b>Expenses</b>				
Selling and administrative	7,849	2,405	5,444	226.4%
Foreign exchange gain	(423)	(57)	(366)	642.1%
Amortization and depreciation	787	573	214	37.3%
Finance and other charges	2,474	2,348	126	5.4%
	10,687	5,269	5,418	102.8%
Income before income taxes	2,764	2,136	628	29.4%
<b>Income tax expense</b>				
Deferred	1,655	655	1,000	152.7%
	1,655	655	1,000	152.7%
<b>Net income and comprehensive income for the period</b>	<b>1,109</b>	<b>1,481</b>	<b>(372)</b>	<b>-25.1%</b>
<b>EBITDA <sup>(1)</sup></b>	<b>5,235</b>	<b>4,973</b>	<b>262</b>	<b>5.3%</b>
<b>Adjusted EBITDA <sup>(1)</sup></b>	<b>7,365</b>	<b>5,773</b>	<b>1,592</b>	<b>27.6%</b>
<b>Adjusted Net Income <sup>(1)</sup></b>	<b>2,696</b>	<b>2,036</b>	<b>660</b>	<b>32.4%</b>

Note:

(1) See “Non-IFRS Measures”

## *Fiscal 2018 Compared to Fiscal 2017:*

Select financial highlights include the following:

- In Fiscal 2018, the Company successfully completed its IPO at a price of CAD \$14.00 per share, resulting in net proceeds of CAD \$119.4 million to the Company and \$109.7 million to the Selling Shareholders.
- In Fiscal 2018, the Company also completed the Renpure Acquisition for consideration of \$138.0 million and Cake Acquisition for consideration of \$4.0 million.
- Revenue increased by 122.0%, or \$51.6 million, to \$94.0 million in Fiscal 2018 from \$42.4 million in Fiscal 2017. Such growth was comprised of (i) organic growth of \$6.6 million, or 15.5%, primarily driven by increases in SKU's, shelf space and door count across our retailers and distributors and (ii) revenue contribution resulting from the 2018 Acquisitions of \$45.0 million.
- In Fiscal 2018, the Company had a net (loss) of \$10.4 million compared to net income of \$2.0 million in Fiscal 2017.
- Adjusted EBITDA increased by 63.3% or \$10.2 million, to \$26.2 million in Fiscal 2018 from \$16.0 million in Fiscal 2017.
- Adjusted Net Income decreased by 11.0%, or \$0.4 million, to \$3.0 million in Fiscal 2018 from \$3.4 million in Fiscal 2017.

<b>(in thousands of US dollars) (unaudited)</b>	<b>Fiscal 2018</b>	<b>Fiscal 2017</b>	<b>\$ Change</b>	<b>% Change</b>
<b>Consolidated statements of operations and comprehensive (loss) income:</b>				
<b>Revenue</b>	<b>94,039</b>	<b>42,368</b>	<b>51,671</b>	<b>122.0 %</b>
Cost of sales	51,222	16,933	34,289	202.5 %
Gross profit	42,817	25,435	17,382	68.3 %
<b>Expenses</b>				
Selling and administrative	26,701	10,878	15,823	145.5 %
Foreign exchange (gain) loss	(570)	67	(637)	nmf
Amortization and depreciation	3,007	2,238	769	34.4 %
Finance and other charges	25,889	9,347	16,542	177.0 %
	55,027	22,530	32,497	144.2 %
(Loss) income before income taxes	(12,210)	2,905	(15,115)	nmf
<b>Income tax (recovery) expense</b>				
Deferred	(1,808)	889	(2,697)	nmf
	(1,808)	889	(2,697)	nmf
<b>Net (loss) income and comprehensive (loss) income for the period</b>	<b>(10,402)</b>	<b>2,016</b>	<b>(12,418)</b>	<b>nmf</b>
<b>EBITDA <sup>(1)</sup></b>	<b>8,227</b>	<b>14,114</b>	<b>(5,887)</b>	<b>-41.7 %</b>
<b>Adjusted EBITDA <sup>(1)</sup></b>	<b>26,200</b>	<b>16,047</b>	<b>10,153</b>	<b>63.3 %</b>
<b>Adjusted Net Income <sup>(1)</sup></b>	<b>2,989</b>	<b>3,357</b>	<b>(368)</b>	<b>-11.0 %</b>

Note:

(1) See "Non-IFRS Measures"

## **Summary of Factors Affecting Performance**

We believe that our performance and future success depend on a number of factors that present significant opportunities for us. These factors are also subject to a number of inherent risks and challenges, some of which are discussed below and in the "Risk Factors".

## *Our Brands*

MAV Beauty Brands has a diverse collection of authentic and rapidly growing brands that offer consumers a wide range of high quality and innovative products. Our portfolio, including Marc Anthony True Professional, Renpure and Cake Beauty, was assembled to ensure that each of our brands targets a distinct consumer segment with limited competitive overlap. We believe our brands position MAV Beauty Brands to be one of the most relevant and innovative independent personal care company in the world. Maintaining, enhancing and growing our brand appeal in North America and internationally is critical to our continued success. Failure to maintain and enhance our brands in any of the targeted markets may materially and adversely affect the business, results of operations or financial condition.

## *Product Innovation*

We believe that product innovation is critical to our success. Our retail partners tell us that our disciplined and agile innovation process and unique formulation capabilities represent a critical competitive advantage by allowing us to deliver exciting, on-trend products to our retail partners faster and more frequently than our competitors. Our innovation is driven by real-time feedback from multiple sources, including beauty experts that are at the forefront of trends, collaboration with our retail partners, MAV Beauty Brands' active and engaged brand founders and our integrated product development team. These coordinated sources of proprietary intelligence provide us with unparalleled insight on changes in consumer and retail partner preferences that allow us to quickly introduce appropriate products to address the rapidly evolving market. Our new product formulas and formats are meticulously designed in-house by our integrated product development team, an approach which has allowed us to utilize effective new ingredients, optimize our formulation process and take new products to market faster and more frequently than less nimble competitors.

## *Consumer Trends*

The global personal care industry is subject to shifts in consumer trends, preferences and consumer spending and our revenue and operating results depend, in part, on our ability to respond to such changes in a timely manner. We believe that MAV Beauty Brands has a unique and attractive product portfolio that has an ability to stay on-trend through our ongoing product innovation cycle.

Our in-house product development team, including research and development experts and creative designers, works closely with our brand founders and management, retailers and other constituents, to allow for a seamless process to bring a product from idea to retail shelves. We collaborate closely with our retail partners to develop innovative products that will excite consumers and drive in-store traffic. Our leading market position in Canada and strong relationships with retail partners provide us with an important competitive advantage through the ability to test consumer adoption by conducting selective trials of new and innovative products prior to executing a new full new product rollout.

## *Relationships with Retail Partners and Distributors*

We believe that our market position is strengthened by the desire of our retail partners to allocate increased shelf space to on-trend branded products with compelling quality and value attributes that create consumer excitement, drive in-store traffic and generate attractive economics for the retailer.

Our category leading brands are distinctly positioned to enable MAV Beauty Brands to address a wide variety of consumers, personal care trends and retail partner needs with limited competitive overlap, which is highly valued by our retail partners and international distributors. We have strong and longstanding relationships with leading retailers, as well as distributors that sell our products internationally. Retailers have consistently supported us by increasing the number of retail stores that stock our brands and allocating increasing shelf space to our product portfolio. While many of our relationships with our retail partners span over a decade, failure to maintain these relationships with retail partners and international distributors or financial difficulties experienced by these retail partners or international distributors could adversely affect our business.

### *Sourcing and Production*

We have developed a strong, global supply chain based on long standing relationships. We work closely with our third-party suppliers on new product innovation and quality. Our product development team designs our formulas and our suppliers produce to our specifications. We also purchase packaging components that are manufactured to our design specifications. Our manufacturing process is centered on close collaboration with a network of leading third-party manufacturers in North America who meet our quality standards. We work with our manufacturers and supply network to achieve high quality, flexible, capital-light and cost effective structure. We believe that we have identified ample manufacturing capacity as well as back-up capability in the event that one or more suppliers or manufacturers cannot meet our needs.

### *Competition*

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

### *Acquisitions*

We selectively evaluate entering complementary adjacent high-growth personal care categories by leveraging the strength of our existing brands through product innovation and through the acquisition of independent growth-oriented brands. In 2018, we successfully acquired and began to integrate Renpure, LLC and Cake Beauty Inc. In pursuing potential acquisition candidates, we will assess several criteria, including: (i) entry or expansion into adjacent high growth categories; (ii) access to new consumer end-markets; (iii) demonstrated innovation capabilities; (iv) revenue and integration synergies; and (v) financial attractiveness.

### *Foreign Exchange*

Our financial statements are presented in U.S. dollars, which is the functional currency of the Company and the presentation currency for the consolidated financial statements. Following the Renpure Acquisition, a majority of our revenue and cost of goods sold are now derived in U.S. dollars. A significant portion of our revenue and cost of goods sold is derived in Canadian dollars, which has caused downward pressure in our results in recent years due to the weakening of the Canadian dollar against the U.S. dollar over this period. We do not hedge our exchange rate exposure through financial instruments as the current balance between our U.S. operations and our Canadian operations creates a partial natural hedge. As our international sales increase, we expect that we will diversify our exposure to other currencies.

### *Seasonality*

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

### **How We Assess the Performance of Our Businesses**

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

## *Revenue*

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

For sales to distributors, revenues are recognized when control of the goods have transferred to the distributor, which is dependent on specific shipping terms. Following shipping, the distributor has full 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 immediately at the point in which control transfers.

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

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

## *Gross Profit*

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

## *Selling and Administrative*

Our selling and administrative expenses are predominantly comprised of wages and benefits, third-party commissions, outbound freight, travel, promotional and marketing costs, accounting fees, legal fees and other expenses related to the corporate infrastructure required to support our business.

## *EBITDA*

We define EBITDA as net (loss) income and comprehensive (loss) income for the period before: (i) income tax (recovery) expense; (ii) interest; and (iii) amortization and depreciation.

## *Adjusted EBITDA*

We believe Adjusted EBITDA is a useful measure to assess the performance of our Company as it provides more meaningful operating results by excluding the effects of expenses that are not reflective of our underlying business performance and other one-time or non-recurring expenses. We define Adjusted EBITDA as EBITDA as adjusted to add back or deduct, as applicable, certain expenses, costs, charges or benefits incurred in such period which in management's view are not indicative of continuing operations, including: (i) transaction-related costs; (ii) shareholder fees and related costs; (iii) non-recurring charges; (iv) purchase accounting adjustments; (v) share-based compensation; and (vi) unrealized foreign exchange (gain) loss.

## Adjusted Net Income

We believe Adjusted Net Income is a useful measure to assess the performance of our Company as it provides more meaningful operating results by excluding the effects of expenses that are not reflective of our underlying business performance and other one-time or non-recurring expenses. We define Adjusted Net Income as net income (loss) and comprehensive income (loss) as adjusted to add back or deduct, as applicable, certain expenses, costs, charges or benefits incurred in such period which in management's view are not indicative of continuing operations, including: (i) transaction-related costs; (ii) shareholder fees and related costs; (iii) non-recurring charges; (iv) purchase accounting adjustments; (v) share-based compensation; (vi) unrealized foreign exchange (gain) loss; and (vii) tax impacts of the aforementioned adjustments (based on annual effective tax rate).

## Selected Consolidated Financial Information

The following table summarizes our recent results of operations for the periods indicated. The selected consolidated financial information set out below for Fiscal 2018 and Fiscal 2017 has been derived from our annual audited consolidated financial statements and related notes. The selected consolidated financial information set out below for Q4 2018, Q4 2017, Predecessor 2016 Period and Fiscal 2016 is unaudited:

(in thousands of US dollars) (unaudited)	Successor					Predecessor	Fiscal 2016
	Q4 2018	Q4 2017	Fiscal 2018	Fiscal 2017	Successor 2016 Period	Predecessor 2016 Period	
<b>Consolidated statements of operations and comprehensive (loss) income:</b>							
Revenue	29,032	12,164	94,039	42,368	8,937	30,265	39,202
Cost of sales	15,581	4,759	51,222	16,933	5,118	11,729	16,847
Gross profit	13,451	7,405	42,817	25,435	3,819	18,536	22,355
Expenses							
Selling and administrative	7,849	2,405	26,701	10,878	2,653	6,909	9,562
Foreign exchange (gain) loss	(423)	(57)	(570)	67	16	(72)	(56)
Amortization and depreciation	787	573	3,007	2,238	568	95	663
Finance and other charges	2,474	2,348	25,889	9,347	4,879	23	4,902
	10,687	5,269	55,027	22,530	8,116	6,955	15,071
<b>(Loss) income before income taxes</b>	2,764	2,136	(12,210)	2,905	(4,297)	11,581	7,284
Income (recovery) tax expense							
Current	—	—	—	—	—	2,703	2,703
Deferred	1,655	655	(1,808)	889	(1,019)	230	(789)
	1,655	655	(1,808)	889	(1,019)	2,933	1,914
<b>Net (loss) income and comprehensive (loss)</b>	1,109	1,481	(10,402)	2,016	(3,278)	8,648	5,370
EBITDA <sup>(1)</sup>	5,235	4,973	8,227	14,114	(1,470)	11,699	10,229
Adjusted EBITDA <sup>(1)</sup>	7,365	5,773	26,200	16,047	2,716	12,569	15,285
Adjusted Net Income <sup>(1)</sup>	2,696	2,036	2,989	3,357	(201)	9,287	9,086

Note:

(1) See "Non-IFRS Measures"

## Non-IFRS Measures

The following tables provides a reconciliation of net (loss) income and comprehensive (loss) income for the period to EBITDA, Adjusted EBITDA and Adjusted Net Income for Q4 2018, Q4 2017, Fiscal 2018, Fiscal 2017, Successor 2016 Period, Predecessor 2016 Period, and Fiscal 2016:

(in thousands of US dollars) (unaudited)	Successor					Predecessor	
	Q4 2018	Q4 2017	Fiscal 2018	Fiscal 2017	Successor 2016 Period	Predecessor 2016 Period	Fiscal 2016
<b>Consolidated statements of operations and comprehensive (loss) income:</b>							
	1,109	1,481	(10,402)	2,016	(3,278)	8,648	5,370
Income (recovery) tax expense	1,655	655	(1,808)	889	(1,019)	2,933	1,914
Interest	1,684	2,264	17,430	8,971	2,259	23	2,282
Amortization and deprecation	787	573	3,007	2,238	568	95	663
<b>EBITDA</b>	<b>5,235</b>	<b>4,973</b>	<b>8,227</b>	<b>14,114</b>	<b>(1,470)</b>	<b>11,699</b>	<b>10,229</b>
Transaction-related costs (1)	758	424	10,723	740	2,785	—	2,785
Non-recurring charges (2)	875	185	2,427	874	368	168	536
Purchase accounting adjustments (3)	—	—	2,727	—	1,314	—	1,314
Share-based compensation (4)	1,099	93	2,284	303	—	—	—
Foreign exchange (gain) loss	(602)	98	(188)	16	(281)	702	421
<b>Adjusted EBITDA</b>	<b>7,365</b>	<b>5,773</b>	<b>26,200</b>	<b>16,047</b>	<b>2,716</b>	<b>12,569</b>	<b>15,285</b>

(in thousands of US dollars) (unaudited)	Successor					Predecessor	
	Q4 2018	Q4 2017	Fiscal 2018	Fiscal 2017	Successor 2016 Period	Predecessor 2016 Period	Fiscal 2016
<b>Consolidated statements of operations and comprehensive (loss) income:</b>							
	1,109	1,481	(10,402)	2,016	(3,278)	8,648	5,370
Transaction-related costs (1)	758	424	10,723	740	2,785	—	2,785
Non-recurring charges (2)	875	185	2,427	874	368	168	536
Purchase accounting adjustments (3)	—	—	2,727	—	1,314	—	1,314
Share-based compensation (4)	1,099	93	2,284	303	—	—	—
Foreign exchange (gain) loss	(602)	98	(188)	16	(281)	702	421
Tax impact of the above adjustments	(543)	(245)	(4,582)	(592)	(1,109)	(231)	(1,340)
<b>Adjusted Net Income</b>	<b>2,696</b>	<b>2,036</b>	<b>2,989</b>	<b>3,357</b>	<b>(201)</b>	<b>9,287</b>	<b>9,086</b>

(1) Comprised of \$738 for Q4 2018 related to the fair value remeasurement of the deferred consideration and \$20 for costs associated with the 2018 Acquisitions that have been accounted for as finance and other charges. Fiscal 2018, \$8,424 of transaction-related costs of the Company have been incurred in connection with the IPO and 2018 Acquisitions, which have been accounted for as finance and other charges and \$2,299 of transaction-related costs of the Company incurred in connection with the IPO and the 2018 Acquisitions, which have been accounted for as selling and administrative expenses.

(2) Comprised of \$875 for Q4 2018 and \$2,112 for Fiscal 2018 of non-recurring costs representing predominantly expenses incurred in respect of the following matters: (i) recruiting costs incurred as part of the Company's efforts to put in place additional senior management, (ii) consulting fees in respect of finance support and operations relating to transaction-related matters, (iii) severance costs incurred in respect of certain employees and payments related to the termination of certain consulting contracts on acquisition, (iv) salary and wages related to staff integration to operate one salon, and (v) non-recurring private company board expenses, which have been accounted for as selling and administrative expenses. Fiscal 2018, \$315 of non-recurring costs have been incurred by the Company in cost of sales, of which \$112 relates to the salon stylist integration and \$203 relates to inventory expenses incurred in connection with the integration of the 2018 Acquisitions.

(3) In conjunction with the 2018 Acquisitions, the fair value adjustment of inventory as part of the initial purchase price allocation was expensed to cost of sales as the inventories were sold.

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

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

<b>(in thousands of US dollars)</b>	<b>As at December 31, 2018</b>	<b>As at December 31, 2017</b>	<b>As at December 31, 2016</b>
<b>Selected consolidated financial position data</b>			
Total assets	358,065	194,205	191,381
Total non-current liabilities	123,088	148,199	150,871
Dividends paid	—	—	4,494

## **Results of Operations**

### ***Q4 2018 Compared to Q4 2017***

The following section provides an overview of our financial performance during Q4 2018 compared to Q4 2017.

#### Revenue

Revenue increased by 138.7%, or \$16.8 million, to \$29.0 million in Q4 2018 compared to \$12.2 million in Q4 2017.

The increase was primarily due to revenue contribution from the 2018 Acquisitions of \$17.1 million. Revenue from 2018 Acquisitions were better than expected in Q4 2018 due to the increased distribution and sales velocity on new SKU introductions in 2018, including cross selling of 23 new SKU introductions into two drug retailers in Q4 2018, 9 additional SKU's added in a mid-year shelf expansion at 2 mass retailers and body wash SKU's at major mass retailer at beginning of 2018.

#### Cost of sales

Cost of sales increased by 227.4%, or \$10.8 million, to \$15.6 million in Q4 2018 compared to \$4.8 million in Q4 2017.

Cost of sales as a percentage of revenue was 53.7% in Q4 2018 from 39.1% in Q4 2017.

The increase principally reflects the effect from the consolidation of the Acquisitions, which currently have different gross margin profiles than the Company. In addition, the change in margin reflects increased distribution and higher-than-expected sales velocity on the 2018 Acquisitions products, which contributed to strong revenue performance and gross profit growth, but at a lower gross margin.

The on shelf investment we made in 2018 were undertaken to strengthen our positioning with retailers and distributors and position of the Company to achieve higher profitability in the future. As our sales volumes increase and we further benefit from economies of scale and leverage our supply chain, we expect our cost of sales as a percentage of revenue to decrease in the future.

The cost of sales as a percentage of revenue was also impacted in Q4 2018 due to higher retailer trade expenses that are deducted from gross sales and discussed in gross profit below.

#### Gross profit

Gross profit increased by 81.6%, or \$6.1 million, to \$13.5 million in Q4 2018 compared to \$7.4 million in Q4 2017 due to the factors discussed above.

Gross profit margin decreased by 14.6% to 46.3% in Q4 2018 from 60.9% in Q4 2017. This decrease was due to the factors discussed above in costs of sales and impacted by retailer trade expenses incurred in Q4 2018.

Retailer trade expenses are paid to retailers for promotions, advertising, contract pricing discounts and other



trade discounts such as markdowns. These expenses are recorded as part of net sales. In Q4 2018 the Company delivered on a significant holiday program to a mass retailer. This holiday program did not perform in line with expectation and resulted in a one-time markdown expense in Q4 2018. Excluding these markdowns of \$1.1 million, gross profit margin would have been 48.3% for Q4 2018.

As we expand our international business into more competitive international markets, trade spend through contract pricing discounts has increased to ensure a competitive retail price position and support category driven promotional activities. In Q4 2018, we saw an increase in contract pricing due to this sales mix. This is expected to continue through Fiscal 2019, but the impact to Q4 2018 gross margin was 1.3%.

#### Selling and administrative

Selling and administrative expense increased by 226.4%, or \$5.4 million, to \$7.8 million in Q4 2018 compared to \$2.4 million in Q4 2017.

The increase was due in part to the inclusion of the selling and administrative expenses from the 2018 Acquisitions and impacted by \$2.0 million of stock-based compensation and non-recurring charges, as compared to \$0.6 million in Q4 2017.

Selling and administrative expense as a percentage of revenue increased 7.3% to 27.0% in Q4 2018 from 19.8% in Q4 2017. Excluding stock-based compensation and non-recurring charges for Q4 2018, selling and administrative expense was \$5.9 million, and as a percentage of revenue 20.2%.

In addition to the 2018 Acquisitions and added costs of being a public company, the increase in selling and administrative expenses was due to the impact of the significant investments we made in building out our infrastructure, senior management team, systems and processes to support our planned future growth. As we scale we will continue to add resources to the Company to support the growth. In addition, we increased our advertising and marketing expense on brand awareness to support the Company's growth.

#### EBITDA and Adjusted EBITDA

EBITDA increased by 5.3% compared to Q4 2017 to \$5.2 million in Q4 2018. EBITDA in Q4 2018 was impacted by \$0.7 million from remeasurement of the deferred consideration related to the Cake Acquisition and stock-based compensation expense of \$1.1 million.

Adjusted EBITDA increased by 27.6%, or \$1.6 million, to \$7.4 million in Q4 2018 from \$5.8 million in Q4 2017 due to the factors discussed above and after non-recurring charges.

#### Foreign exchange (gain) loss

Foreign exchange gain was \$0.4 million in Q4 2018 compared to a foreign exchange gain of \$0.1 million in Q4 2017 due to fluctuations in the exchange rates of our functional currency relative to various source currencies during the period.

#### Amortization and depreciation

Amortization and depreciation expense was \$0.8 million in Q4 2018, compared to \$0.6 million in Q4 2017 due to amortization related to the 2018 Acquisitions.

### Finance and other charges

Finance and other charges increased by \$0.1 million to \$2.5 million in Q4 2018 from \$2.3 million in Q4 2017. Interest expense related to debt was \$1.7 million for Q4 2018, a decrease of \$0.6 million from Q4 2017. Included in Q4 2018 finance and other charges was \$0.7 million from remeasurement of deferred consideration related to the Cake Acquisition.

### Income tax (recovery) expense

Income tax expense was \$1.7 million in Q4 2018 compared to income tax expense of \$0.7 million in Q4 2017 due to the change in taxable income and effect of expenses that are not deductible in determining taxable profit.

### Net (loss) income and comprehensive (loss) income for the period and Adjusted Net Income

In Q4 2018, we generated a net income of \$1.1 million, compared to net income of \$1.5 million in Q4 2017 due to the factors discussed above.

Adjusted Net Income increased by 32.4%, or \$0.7 million, to \$2.7 million in Q4 2018 from \$2.0 million in Q4 2017 due to the factors discussed above after adjusting for transaction costs related to the 2018 Acquisitions and non-recurring charges.

### ***Fiscal 2018 compared to Fiscal 2017***

The following section provides an overview of our financial performance during Fiscal 2018 compared to Fiscal 2017.

### Revenue

Revenue increased by 122.0%, or \$51.6 million, to \$94.0 million in Fiscal 2018 from \$42.4 million in Fiscal 2017.

The increase was due to (i) organic growth of the Company of \$6.6 million or 15.5% and (ii) revenue contribution from the 2018 Acquisitions of \$45.0 million.

The organic growth in our North American business was \$6.1 million, or 17.8%, to \$40.5 million, which was driven by increases in SKUs, shelf space and door count of our Marc Anthony True Professional brand within a variety of retailers and channels. Increases in shelf space were driven by our strong performance on shelf as we successfully added a number of new SKUs in 2018 as part of our North American retail partners' annual shelf resets.

Sales from our international business increased by 5.9%, or \$0.5 million to \$8.4 million driven by increases with new international distributors. The Company has entered multiple key new markets in 2018, including Germany, Turkey, China, Argentina, Columbia and India which are important to its long-term international growth plans. Sales were lower than expected for Fiscal 2018 as new markets will shift into 2019 distribution and further expansion within existing distributor markets.

### Cost of sales

Cost of sales increased by 202.5%, or \$34.3 million, to \$51.2 million in Fiscal 2018 from \$16.9 million in Fiscal 2017.

The increase was due to (i) the organic growth of the Company's sales and (ii) the inclusion of the cost of sales from the 2018 Acquisitions. In addition, the cost of sales for Fiscal 2018 increased by \$2.7 million as a result of purchase accounting adjustments relating to the 2018 Acquisitions and non-recurring adjustments.

Cost of sales, excluding the purchase price accounting adjustments, as a percentage of sales were 51.6% for Fiscal 2018 from 40.0% for Fiscal 2017. As discussed above, this increase was principally due to mix of product sold between our brands with stronger than expected sales on lower margin products from acquisitions, driving top line growth, but with higher costs of sales margins.

#### Gross profit

Gross profit increased by 68.3%, or \$17.4 million, to \$42.8 million in Fiscal 2018 compared to \$25.4 million in Fiscal 2017 due to the increased points of distribution resulting from the Company's organic growth and the 2018 Acquisitions, as discussed above. Gross profit was negatively impacted by the \$2.7 million of adjustments described above.

Gross profit margin decreased by 14.5% to 45.5% in Fiscal 2018 from 60.0% in Fiscal 2017. This decrease was due to the factors discussed above including the adjustments. Gross profit margin, excluding the adjustments was 48.4%. In addition, excluding the markdowns discussed in Q4 2018 and adjustments the gross profit margin was 49.0%.

#### Selling and administrative

Selling and administrative expense increased by 145.5%, or \$15.8 million, to \$26.7 million in Fiscal 2018 compared to \$10.9 million in Fiscal 2017.

The increase was principally due in part to the inclusion of the operating results from the 2018 Acquisitions and impacted by \$6.7 million of one-time transaction-related costs related to the IPO and 2018 Acquisitions, non-recurring charges and stock-based compensation, relative to \$1.5 million in Fiscal 2017.

In addition to the 2018 Acquisitions and added public company costs, due to factors discussed above the increase in selling and administrative expenses was due to the significant investments we made in building out our infrastructure, senior management team, systems and processes to support our planned future growth. In addition, we increased our advertising and marketing expense on brand awareness to support the Company's growth.

Selling and administrative expense as a percentage of revenue increased 2.7% to 28.4% in Fiscal 2018 from 25.7% in Fiscal 2017. Excluding stock-based compensation, one-time transaction related costs and non-recurring charges for Fiscal 2018 and Fiscal 2017. Selling and administrative expense as a percentage of revenue was 21.2% and 22.0% respectively.

#### EBITDA and Adjusted EBITDA

EBITDA decreased by 41.7%, or \$5.9 million, to \$8.2 million in Fiscal 2018 from \$14.1 million in Fiscal 2017 due to the factors discussed above and including transaction costs related to the IPO, the 2018 Acquisitions, purchase accounting and non-recurring charges.

Adjusted EBITDA increased by 63.3% or \$10.2 million, to \$26.2 million in Fiscal 2018 from \$16.0 million in Fiscal 2017 due to the factors discussed above and adjustments for transaction costs related to the IPO, the 2018 Acquisitions, purchase accounting and non-recurring charges.

#### Foreign exchange (gain) loss

Foreign exchange gain was \$0.6 million in Fiscal 2018 compared to a loss of \$0.1 million in Fiscal 2017 due to fluctuations in the exchange rates of our functional currency relative to various source currencies during the period.

#### Amortization and depreciation

Amortization and depreciation expense increased by \$0.8 million to \$3.0 million in Fiscal 2018 from \$2.2 million in Fiscal 2017 due to the amortization of intangible assets resulting from the 2018 Acquisitions.

### Finance and other charges

Finance and other charges increased by \$16.5 million to \$25.9 million in Fiscal 2018 from \$9.3 million in Fiscal 2017. This was due to the one-time transaction costs related to the IPO and 2018 Acquisitions, amortization and extinguishment of the deferred financing costs, subordinated debt discounts related to the settlement of the debt on closing of IPO and remeasurement of deferred consideration related to the Cake Acquisition. In addition, Interest expense related to debt was \$10.6 million for Fiscal 2018, an increase of \$2.3 million from Fiscal 2017 due to additional interest on long-term debt used to fund the 2018 Acquisitions.

### Income tax (recovery) expense

Income tax recovery was \$1.8 million in Fiscal 2018 compared to an expense of \$0.9 million in Fiscal 2017 due to the increased interest expense on debt to fund 2018 Acquisitions and one-time transaction costs related to the IPO and the 2018 Acquisitions.

### Net (loss) income and comprehensive (loss) income for the period and Adjusted Net Income

In Fiscal 2018, we generated a net (loss) of \$10.4 million, compared to net income of \$2.0 million in Fiscal 2017 due to the factors discussed above.

Adjusted Net Income decreased by 11.0%, or \$0.4 million, to \$3.0 million in Fiscal 2018 from \$3.4 million in Fiscal 2017 due to the factors discussed above after adjusting for transaction costs related to the IPO, the 2018 Acquisitions, purchase accounting and non-recurring charges.

### **Summary of Consolidated Quarterly Results and Certain Performance Measures:**

The following table summarizes the results of our operations for the last eight most recently completed quarters. This unaudited quarterly information has been prepared in accordance with IFRS. As a result of the 2018 Acquisitions, the results of operations for any quarter are not necessarily indicative of the results of operations for the fiscal year.

(in thousands of US dollars, except for per share figures) (unaudited)	Q4 2018	Q3 2018	Q2 2018	Q1 2018	Q4 2017	Q3 2017	Q2 2017	Q1 2017
Revenue	29,032	26,175	22,873	15,959	12,164	10,471	9,224	10,509
Gross profit	13,451	11,598	9,809	7,959	7,405	6,271	5,756	6,003
Net (loss) income and comprehensive (loss) income for the period	1,109	(6,675)	(2,963)	(1,873)	1,481	331	(39)	243
Basic net (loss) income per common share <sup>(1)</sup>	0.03	(0.19)	(0.21)	(0.13)	0.16	0.04	(0.00)	0.03
Diluted net (loss) income per common share <sup>(1)</sup>	0.03	(0.19)	(0.21)	(0.13)	0.06	0.01	(0.00)	0.01
EBITDA <sup>(2)</sup>	5,235	81	1,168	1,743	4,973	3,231	2,849	3,061
Adjusted EBITDA <sup>(2)</sup>	7,365	7,271	6,679	4,885	5,773	3,498	3,229	3,547

Notes:

- (1) The Company effected changes to its share capital in connection with the IPO completed in Q2 2018. For comparative purposes, basic net (loss) income per Common Share and diluted net (loss) income per Common Share for all prior periods above reflect these share capital changes on a retroactive basis.

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

- The impact of the 2018 Acquisitions beginning with Q1 2018, which contributed revenue of \$45.0 million in Fiscal 2018;
- Our organic revenue growth of \$6.6 million in Fiscal 2018, which was primarily driven increases in SKU's, shelf space and door count across our retailers and distributors;
- The impact of the IPO and new Credit Facility;
- The volume and timing of promotion and media;
- The volume of inventory and timing of shipments to distributors and retailers;
- Foreign currency fluctuations.

- (2) See "Non-IFRS Measures"

Adjustments to Q3 2018 comparative figures

In the fourth quarter of Fiscal 2018, the Company identified and corrected an immaterial non-cash error related to share-based compensation for stock options issued and disclosed at the time of the IPO that should have been accounted for and recorded in the third quarter of 2018. As stock-based compensation is a non-cash item, this error did not impact net cash provided from operations. The error resulted in an understatement of share-based compensation recorded in selling and administrative expenses of \$864 with a corresponding understatement of equity-settled employee benefits reserve. As a result, the error, which was immaterial to the previously issued third quarter financial statements, has been corrected herein from the amounts previously reported as presented below:

<b>(in thousands of US dollars, except for per share figures) (unaudited)</b>	<b>As Reported</b>	<b>Adjustments</b>	<b>As Revised</b>
<b>Three months ended September 30, 2018</b>			
Selling and administrative expenses	6,312	864	7,176
Net (loss) and comprehensive (loss)	(5,811)	(864)	(6,675)
Basic and diluted net (loss) and comprehensive (loss) per common share:	(0.16)	(0.03)	(0.19)
<b>Nine months ended September 30, 2018</b>			
Selling and administrative expenses	17,988	864	18,852
Net (loss) and comprehensive (loss)	(10,647)	(864)	(11,511)
Basic and diluted net (loss) and comprehensive (loss) per common share:	(0.53)	(0.05)	(0.58)

**Liquidity and Capital Resources:**

***Overview***

Our principal uses of funds are for operating expenses, capital expenditures, finance costs and debt service requirements. We believe that cash generated from our operations, together with amounts available under the Credit Facility, will be sufficient to meet our future operating expenses, capital expenditures, future debt service requirements and dividends. In addition, we believe that our capital structure provides us with significant financial flexibility to pursue our future growth strategies. However, our ability to fund operating expenses, capital expenditures, future debt service requirements and dividends will depend on, among other things, our future operating performance, which will

be affected by general economic, financial and other factors, including factors beyond our control. See “Risk Factors” as well as the “Summary of Factors Affecting Performance” in this MD&A for additional information. We review acquisition and investment opportunities in the normal course of our business and may make select acquisitions and investments to implement our business strategy when suitable opportunities arise.

### ***Working Capital***

The following table presents our working capital position as at the end of Fiscal 2018:

<b>(in thousands of US dollars)</b>	<b>As at December 31, 2018</b>
Cash	5,841
Trade and other receivables	19,462
Inventories	21,214
Prepaid expenses	3,025
Accounts payable and accrued liabilities	(18,076)
Deferred revenue	(107)
Provision for returns and markdowns	(172)
Current portion of deferred consideration	(738)
<b>Working Capital</b>	<b>30,449</b>

As at December 31, 2018, we had \$30.4 million of working capital, compared to \$2.1 million of working capital as at December 31, 2017. This \$28.3 million increase in our working capital was underpinned by our robust revenue growth, which resulted in higher accounts receivable and a need for greater inventory, as well as the impact of the 2018 Acquisitions.

### ***Credit Facilities***

On September 30, 2016, Marc Anthony Cosmetics Ltd., as Canadian borrower, entered into a financing agreement with MAC Pure Holdings, Inc., as U.S. borrower, MAC Midco Holdings Inc. and its subsidiaries, as guarantors, the lenders from time to time party thereto, Cortland Capital Market Service LLC, as administrative agent for the lenders and as collateral agent for the lenders, and KKR Credit Advisors (US) LLC, as structuring advisor (the “Financing Agreement”). The Financing Agreement is comprised of: (a) term credit facilities in the aggregate principal amount of \$175,627,000 to fund certain acquisitions and to pay transaction costs relating to such acquisitions; and (b) a revolving credit facility in the aggregate principal amount of \$5,000,000 to finance certain future acquisitions and for working capital and general corporate purposes. The lenders under the Financing Agreement have, among other security, a first ranking security interest over all of Marc Anthony Cosmetic Ltd.’s present and after-acquired real and personal property.

Concurrent with the IPO, we, along with our subsidiaries, Marc Anthony Cosmetics Ltd. and MAC Pure Holdings, Inc., entered into a credit agreement with our direct and indirect subsidiaries, as guarantors, and the lenders from time to time party thereto, which is comprised of: (a) a revolving credit facility in the aggregate principal amount of \$20 million: (i) to pay certain costs relating to the IPO and this new credit facility; (ii) to finance working capital and operational needs of our business; and (iii) for general corporate purposes (the “**Revolving Facility**”); and (b) a non-revolving term loan credit facility in the aggregate amount of up to \$107,500,000: (i) to repay the indebtedness under the Financing Agreement and the Note Purchase Agreement; and (ii) to pay certain costs relating to the IPO and this credit facility (the “**Term Facility**”, and together with the Revolving Facility, the “**Credit Facility**”). The Credit Facility includes an accordion feature in the amount of \$50 million for working capital and general corporate purposes. The Credit Facility will mature on July 10, 2023.

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

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

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

### **Cash Flows**

The following table presents cash flows for Q4 2018, Q4 2017, Fiscal 2018 and Fiscal 2017:

#### **Analysis of Cash Flows for Q4 2018 Compared to Q4 2017:**

<b>(in thousands of US dollars) (unaudited)</b>	<b>Q4 2018</b>	<b>Q4 2017</b>	<b>\$ Change</b>	<b>% Change</b>
<b>Cash, beginning of period</b>	<b>5,116</b>	<b>1,007</b>	<b>4,109</b>	<b>408.0%</b>
Cash flows (used in)				
Operating activities	846	803	43	5.4%
Investing activities	(82)	(119)	37	-31.1%
Financing activities	(39)	(442)	403	-91.2%
<b>Cash, end of period</b>	<b>5,841</b>	<b>1,249</b>	<b>4,592</b>	<b>367.7%</b>

#### Cash flows generated from operating activities

Q4 2018, cash flows generated from operating activities totaled \$0.8 million, which was relatively consistent with Q4 2017. Quarter over quarter, we had an increase in operating cash flows before changes in non-cash working capital of \$1.9 million, which was offset by an increase in working capital investment of \$1.9 million.

#### Cash flows used in investing activities

Q4 2018, cash flows used in investing activities totaled \$0.1 million, which was relatively consistent with Q4 2017. Given operations are asset light, we were able to keep capital expenditures in line with expectations.

#### Cash flows used in financing activities

Q4 2018, cash flows used in financing activities totaled less than \$0.1 million, compared to \$0.4 million in Q4 2017. This decrease in cash flows used in financing activities is due to the refinanced credit facility.

#### **Analysis of Cash Flows for Fiscal 2018 Compared to Fiscal 2017:**

<b>(in thousands of US dollars)</b>	<b>Fiscal 2018</b>	<b>Fiscal 2017</b>	<b>\$ Change</b>	<b>% Change</b>
<b>Cash, beginning of period</b>	<b>1,249</b>	<b>3,134</b>	<b>(1,885)</b>	<b>-60.1%</b>
Cash flows (used in)				
Operating activities	(6,903)	2,655	(9,558)	<i>nmf</i>
Investing activities	(111,528)	(269)	(111,259)	<i>nmf</i>
Financing activities	123,023	(4,271)	127,294	<i>nmf</i>
<b>Cash, end of period</b>	<b>5,841</b>	<b>1,249</b>	<b>4,592</b>	<b>367.7%</b>

### Cash flows (used in) generated from operating activities

Fiscal 2018, cash flows (used in) operating activities totaled \$6.9 million, compared to \$2.7 million generated from operating activities in Fiscal 2017. Cash flows generated before changes in non-cash working capital were \$3.9 million, offset by \$10.8 million of working capital investment made to support the increased revenues and activity in connection with the 2018 Acquisitions. Cash flows from operating activities in Fiscal 2018 also included an increase in cash interest paid of \$2.3 million compared to Fiscal 2017. In Fiscal 2018, cash flows before working capital were impacted by transaction related and non-recurring charges in the amount of \$9.0 million, non-recurring interest on debt in the amount of \$4.6 million, and purchase accounting adjustments in the amount of \$2.7 million.

### Cash flows used in investing activities

Fiscal 2018, cash flows used in investing activities totaled \$111.5 million, compared to \$0.3 million in Fiscal 2017. This increase in cash outflows primarily relates to the 2018 Acquisitions, as capital expenditures remained relatively consistent at \$0.3 million year over year.

### Cash flows (used in) generated from financing activities

Fiscal 2018, cash flows generated from financing activities totaled \$123.0 million, compared to \$4.3 million in cash flows used in financing activities for Fiscal 2017. This increase in cash flows generated from financing activities is primarily due to the net proceeds from the IPO offering and issuance of preferred shares that converted to common shares at the time of IPO for a total of \$108.6 million, a drawdown of the revolver in support of the IPO costs and working capital requirements of \$5.0 million, and the refinancing of the credit facility that resulted in net proceeds of \$9.4 million after financing costs, principal repayments and prepayment fees incurred during the year.

### **Contractual Obligations**

The following table summarizes our significant contractual obligations and commitments as at December 31, 2018, based on undiscounted cash flow:

(in thousands of US dollars)	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
Term loan	107,500	-	-	107,500	-
Revolver	5,500	-	-	5,500	-
Operating lease	5,409	329	980	985	3,115
Total contractual obligations	118,409	329	980	113,985	3,115

### **Off-Balance Sheet Arrangements**

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

### **Financial Instruments**

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

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at fair value through profit and loss ("FVTPL"),



transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

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

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

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

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

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) income. 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) income.

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

Asset / Liability	Classification
Cash	Amortized cost
Trade and other receivables	Amortized cost
Accounts payable and accrued liabilities	Amortized cost
Borrowings	Amortized cost
Preferred shares	Amortized cost
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).

#### **Share Information Prior to the Completion of the IPO**

Prior to the completion of the IPO, we had an unlimited number of Class A Common Shares, an unlimited number of Class B Common Shares and an unlimited number of Class C Non-Voting Common Shares, each with no par value. The Class A Common Shares, Class B Common Shares and Class C Non-Voting Common Shares were identical, except that the Class C Non-Voting Common Shares do not contain voting rights. The Class A Common

Shares, Class B Common Shares and Class C Non-Voting Common Shares ranked *pari passu* in all respects, including the right to receive dividends and upon any distribution of our assets.

We also had authorized an unlimited number of Class A Preferred Shares and Class B Preferred Shares. The Class A Preferred Shares and Class B Preferred Shares had certain voting rights and were entitled to receive dividends, provided that the amount of the declared dividends could not exceed the amount of dividends paid per share on all Class A Common Shares, Class B Common Shares and Class C Non-Voting Common Shares. Upon a liquidation event, the holders of these preferred shares were entitled to receive, in preference and priority to any payment or distribution of our assets to the holders of any other shares of any other class, an amount per share equal to the redemption price of \$1.00 per Class A Preferred Share and \$1.65 per Class B Preferred Share.

Prior to the completion of the IPO, we had 41,038,986.14 Class A Common Shares, 3,125,000.13 Class B Common Shares, 21,333,942 Class C Non-Voting Common Shares, 70,617,689.55 Class A Preferred Shares and 13,789,232 Class B Preferred Shares issued and outstanding. In addition, there were 7,969,750 options outstanding under the Option Plan (as defined herein), each exercisable for one Class A Common Share.

### **Current Share and Information**

In connection with the completion of the IPO, the following pre-closing capital changes were implemented:

- our share capital was amended such that it is now comprised of an unlimited number of Common Shares, an unlimited number of Proportionate Voting Shares and an unlimited number of preferred shares, issuable in series;
- all of the issued and outstanding shares of the Company were exchanged for newly authorized Common Shares;
- all of our issued and outstanding Common Shares were consolidated on a 4.7206-for-one basis;
- a portion of the Common Shares to be retained by an affiliate of TA Associates Management L.P. were exchanged for Proportionate Voting Shares on a 1,000-to-one basis;
- each option to acquire shares of the Company under the Company's legacy option plan were consolidated on a 4.7206-for-one basis and be exercisable for Common Shares at a post-consolidation exercise price; and
- all classes of shares included in our authorized share capital prior to such amendments were repealed from our Articles.

As of the date hereof, an aggregate of 37,577,169 common shares and 3,178 proportionate voting shares and no preferred shares are issued and outstanding. As of the date hereof, an aggregate of 3,516,355 options to acquire Common Shares are outstanding, of which 554,428 are currently exercisable.

### **Related Party Transactions**

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

### **Critical Accounting Judgments and Estimates**

The preparation of the consolidated financial statements in conformity with IFRS requires management to make estimates, assumptions and judgments that affect the reported amounts of assets, liabilities, revenue and expense for the year. Such estimates relate to unsettled transactions and events as of the date of the consolidated financial statements. Accordingly, actual results may differ from estimated amounts as transactions are settled in the future. Estimates and assumptions are reviewed on an ongoing basis. Revisions to estimates are applied prospectively.

The following are the critical judgments that management made in applying the Company's accounting policies and that have the most significant effect on amounts recognized in the consolidated financial statements.

*Provision for returns and markdowns*

The provision for returns represents management's best estimate of the value of the products sold in the current financial year that may be returned in a future year. The provision for markdowns represents management's best estimate of inventory on hand for which the net realizable value is less than cost.

*Provision for expected credit losses*

The Company is exposed to credit risk associated with its trade receivables. 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.

*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.

*Functional currency*

The Company assesses the relevant factors related to the primary economic environment in which its entities operate to determine the functional currency. Where the assessment of primary indicators is mixed, Management assesses the secondary indicators, including the relationship between the foreign operations and reporting entity.

*Useful lives of property and equipment and intangible assets*

The Company reviews the estimated useful lives of property and equipment and intangible assets at the end of each reporting period. The assessment of any impairment of property and equipment and intangible assets is dependent upon estimates of recoverable amounts based on the higher of fair value less cost to sell ("FVLCTS") or value in use ("VIU") calculation that takes into account factors such as economic conditions and the useful life.

*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 International Accounting Standard ("IAS") 36 Impairment of assets.

Management is required to use judgment in determining the grouping of assets to identify their CGUs for the purposes of testing non-financial assets for impairment. In addition, judgment is used to determine whether a triggering event has occurred requiring an impairment test to be completed. The Company has concluded that it has only one cash-generating unit ("CGU") and tests goodwill and intangible assets for impairment on that basis.

In determining the recoverable amount of a CGU or a group of CGUs, various estimates are employed. The recoverable amount of a CGU is the higher of the estimated fair value less costs of disposal or VIU of the CGU. The Company determines VIU by using estimates including projected future revenues, margins, and capital investment consistent with strategic plans presented to the Board. Fair value less costs of disposal are estimated with reference to observable market transactions. Discount rates are consistent with external industry information reflecting the risk associated with the Company and cash flows.

### *Business combinations*

In a business combination, the identifiable assets acquired and liabilities assumed 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 income.

### *Income taxes*

The calculation of income taxes 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. Management judgment is used to determine the amounts of deferred tax assets and liabilities and future tax liabilities to be recognized. In particular, judgment is required when assessing the timing of the reversal of temporary differences to which future income tax rates are applied.

### *Deferred tax assets*

The amount of deferred tax assets is estimated with consideration given to the timing, sources and amounts of future taxable income.

### *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.

### *Fair value of deferred consideration*

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.

## **Significant New Accounting Standards Adopted**

In January 2016, the IASB issued amendments to IAS 7, effective for annual periods beginning on or after January 1, 2017. The amendment requires that the following changes in liabilities arising from financing activities are disclosed (to the extent necessary): (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes. Amendments to IAS 7 were applied prospectively and resulted in no material impact to the Company's consolidated financial statements.

Effective January 1, 2018, the Company adopted IFRS 15 Revenue from Contracts with Customers ("IFRS 15" or "the new standard"). IFRS 15 replaces IAS 18, Revenue, IAS 11, Construction contracts, and related interpretations on revenue. The new standard sets out the requirements for recognizing revenue that apply to all contracts with customers, except for contracts that are within the scope of the standards on leases, insurance contracts and financial instruments and certain non-monetary exchanges. Under the new standard, a company recognizes revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services, using a control based approach. IFRS 15 includes a five-step process to achieve this principle and, in doing so, it is possible more judgment and estimates may be required within the revenue recognition process than are required under previous IFRSs, including

estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation.

The Company has adopted IFRS 15 using the modified retrospective approach and has elected to apply the standard only to contracts that are not completed as of January 1, 2018.

Apart from providing more extensive disclosures on the Company's revenue transactions, the application of IFRS 15 did not have a significant impact on the financial position and/or financial performance of the Company.

Effective January 1, 2018, the Company adopted IFRS 9, Financial Instruments ("**IFRS 9**") and as permitted by the transitional provisions in IFRS 9, the Company elected not to restate comparative figures. IFRS 9 introduces new requirements for classification and measurement of financial assets and financial liabilities, impairment for financial assets and hedge accounting. IFRS 9 replaces the 'incurred loss' model in IAS 39 — Financial Instruments, with an 'expected credit loss' ("**ECL**") model. The new impairment model applies to financial assets measured at amortized cost and under IFRS 9, credit losses are recognized earlier than under IAS 39.

- Cash, trade and other receivables classified as Loans and receivables are now classified as Amortized cost.
- Financial liabilities classified as Amortized cost under IAS 39 continue to be classified as such under IFRS 9.

The adoption of IFRS 9 did not have a significant impact on the financial position and/or financial performance of the Company.

Effective January 1, 2018, the Company adopted the amendments to IFRS 2, Share-based Payments ("**IFRS 2**"), clarifying the accounting for certain types of share-based payment transactions. The amendments provide requirements on accounting for the effects of vesting and non-vesting conditions of cash-settled share-based payments, withholding tax obligations for share-based payments with a net settlement feature, and when a modification to the terms of a share-based payment changes the classification of the transaction from cash-settled to equity-settled. The adoption of IFRS 2 did not have a significant impact on the financial position and/or financial performance of the Company.

### **Significant New Accounting Standards Not Yet Adopted**

The following new standards have been issued but are not effective for the current fiscal year, and have not been applied in preparing the annual consolidated financial statements. Future changes to our existing accounting policies and other note disclosures may result.

In January 2016, the IASB issued IFRS 16, Leases ("**IFRS 16**"), replacing IAS 17, Leases and related interpretations. The standard provides a new framework for lessee accounting that requires substantially all assets obtained through operating leases to be capitalized and a related liability to be recorded. The new standard seeks to provide a more accurate picture of a company's leased assets and related liabilities and create greater comparability between companies who lease assets and those who purchase assets. IFRS 16 becomes effective for annual periods beginning on or after January 1, 2019.

IFRS 16 is expected to have a material impact on the Company's consolidated statements of financial position, with the addition of approximately \$3,000 of lease liabilities and right-of-use assets. Lease-related expenses previously recorded in selling and administrative expenses, will be recorded as depreciation on the right-of-use assets and a finance charge from unwinding the discount on the lease liabilities. IFRS 16 will also change the presentation of cash flows relating to leases in the Company's consolidated statements of cash flows but does not cause a difference in the amount of cash transferred between the parties of a lease. IFRS 16 will be applied for the 2019 annual fiscal period using the modified retrospective approach and the Company will therefore not be restating comparative information. The Company does not expect a material adjustment to opening deficit on January 1, 2019.

In October 2018, the IASB issued amendments to IAS 1 - Presentation of Financial Statements and IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors, clarifying the definition of material. Under the amended definition, information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general-purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. The amendments also clarify the explanations accompanying the definition of material. The amendments are effective January 1, 2020 and are required to be applied prospectively. Early application is permitted. The implementation of these amendments is not expected to have a significant impact on the Company.

In October 2018, the IASB issued amendments to IFRS 3 - Business Combinations. The amendments narrowed and clarified the definition of a business. The amendments will help companies determine whether an acquisition is a business or a group of assets. They also permit a simplified assessment of whether an acquired set of activities and assets is a group of assets rather than a business. Distinguishing between a business and a group of assets is important because an acquirer recognizes goodwill only when acquiring a business. The amendments apply to transactions for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2020. Earlier adoption is permitted. The implementation of these amendments is not expected to have a significant impact on the Company.

## **Risk Factors**

For a detailed description of risk factors associated with the Company, refer to the “Risk Factors” section of the Company’s AIF, which is available on SEDAR at [www.sedar.com](http://www.sedar.com).

In addition, we are exposed to a variety of financial risks in the normal course of operations including credit, market, interest rate, foreign currency and liquidity risk. Our overall risk management program and business practices seek to minimize any potential adverse effects on our consolidated financial performance.

Risk management is carried out under practices approved by our Board. This includes identifying, evaluating and hedging financial risks based on the requirements of our organization. Our Board provides guidance for overall risk management, covering many areas of risk including but not limited to foreign exchange risks, interest rate risks, credit risks and liquidity risks.

### *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 accounts receivable and the Company mitigates this risk by monitoring the credit worthiness 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 economic environment. As at December 31, 2018, 68% of trade and other receivables is due from 3 customers (54% as at December 31, 2017).

One customer contributed 10% or more to the Company’s revenue for the year ended December 31, 2018. Three customers contributed 10% or more to the Company’s revenue in the year ended December 31, 2017.

In determining the recoverability of a trade receivable, the Company considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the end of the reporting period.

### *Market risk*

Market risk is the risk that the value of the Company’s financial instruments will fluctuate due to changes in the market risk factors. The market risk factors that affect the Company are foreign currency rates and interest rates.

### *Interest rate risk*

The Company has credit facilities for which general rate fluctuations apply. This exposes the Company to the risk of changing interest rates that may have an effect on its earnings. The Company does not use any derivative financial instruments to mitigate this risk. If interest rates had been 50 basis points higher and all other variables were held constant, the Company's profit for the year ended December 31, 2018 would decrease by \$679 (\$447 for the year ended December 31, 2017).

### *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 includes the following amounts with respect to financial assets and liabilities for which cash flows are originally denominated in foreign currencies, expressed in U.S. dollars:

	As at December 31, 2018	As at December 31, 2017
Cash	3,091	136
Trade and other receivables	2,852	1,923
Accounts payable and accrued liabilities	(7,918)	(7,025)
Deferred consideration	(3,067)	-
Borrowings	-	(735)

As at December 31, 2018, 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 \$504 (as at December 31, 2017, \$570) due to the fluctuation and this would be recorded in the consolidated statements of operations and comprehensive income (loss).

### *Liquidity risk*

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, 2018, the most significant financial liabilities are: borrowings, deferred consideration, accounts payable and accrued liabilities.

### *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, preferred 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 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.

## **Disclosure Controls & Procedures and Internal Control Over Financial Reporting**

Management is responsible for establishing and maintaining adequate disclosure controls and procedures ("DCP") and internal controls over financial reporting ("ICFR"), as defined in National Instrument 52-109 – Certification of Disclosure in Issuers' Annual and Interim Filings ("NI 52-109").

### *Disclosure Controls & Procedures*

Disclosure controls and procedures are designed to provide reasonable assurance that material information is gathered and reported to senior management, including the CEO and CFO, on a timely basis so that appropriate decisions can be made regarding public disclosure.

The Company's management, under the supervision of the CEO and the CFO, has designed and maintained a set of disclosure controls and procedures to ensure that information required to be disclosed by the Company in its annual filings or other reports filed or submitted by the Company under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation.

An evaluation of the disclosure controls was done under the supervision of and with the participation of management, including the CEO and the CFO. Based upon this evaluation, the CEO and CFO concluded that, because of the material weakness in our internal control over financial reporting described below, our disclosure controls were not effective as of December 31, 2018.

### *Internal Controls Over Financial Reporting*

ICFR is a process designed under the supervision of the CEO and CFO, and effected by management and other personnel of the Company, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. The CEO and CFO are also responsible for disclosing any changes to the Company's internal controls during the most recent period that have materially affected, or are reasonably likely to materially affect, its internal controls over financial reporting. However, because of its inherent limitations, internal controls over financial reporting may not prevent or detect misstatements on a timely basis.

The Company used the control framework set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control – Integrated Framework (2013) to design the Company's ICFR. Pursuant to NI 52-109, the Company has limited the scope of the design of DCP and ICFR to exclude controls, policies and procedures over entities acquired by the Company not more than 365 days before the end of the financial period. Rempure, a recently acquired entity (acquired March 8, 2018), excluding goodwill and intangible assets generated from this acquisition and intercompany balances, represents approximately 38% of the Company's current assets, 8% of total assets, 34% of current liabilities, and 5% of total liabilities as at December 31, 2018. For the year ended December 31, 2018, Rempure accounted for 43% of consolidated revenue.

The Company's management, under the supervision of and with the participation of management, including the CEO and the CFO, conducted an evaluation of the effectiveness of the Company's internal control over financial reporting as of December 31, 2018. Based on this evaluation, management identified certain control deficiencies that together amounted to a material weakness in internal control over financial reporting as described below. A material weakness, as defined in NI 52-109, is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is reasonable possibility that a material misstatement of the annual or interim financial statements will not be prevented or detected on a timely basis.

While management has taken important steps to address and remedy the deficiencies identified (discussed further below), as at December 31, 2018, the following remaining control deficiencies together amount to a material weakness relating to the design of ICFR:

- information technology controls, including end user and privileged access rights and appropriate segregation of duties, including for certain users the ability to create and post journal entries, are not designed effectively;
- lack of an effective control environment with formal processes and procedures or an adequate number of accounting personnel with the appropriate technical training in, and experience with, IFRS to allow for a detailed review of complex accounting transactions that would identify errors in a timely manner; and



- lack of effectively designed controls with formal processes and procedures over the financial statement close and reporting process in order to ensure the accurate and timely preparation of financial statements in accordance with IFRS.

Notwithstanding this material weakness, the Company has concluded that the annual financial statements together with the other financial information included in this annual filing fairly present in all material respects its financial position, financial performance and cash flows for the periods presented in accordance with IFRS.

Management has commenced remediation of this material weakness and its remediation plan includes:

- implementing various processes and controls to reduce the risk of potential material misstatement of the Company's annual or interim consolidated financial statements;
- hiring additional accounting staff to eliminate segregation of duty issues;
- hiring additional staff knowledgeable and experienced in regards to public company financial reporting requirements (beginning with the hiring of a Vice President, Finance in September 2018 and a Director of Finance in January 2019);
- formalizing control processes and procedures; and
- remedying the access control weakness in regards to IT controls.

No assurance can be provided at this time that the actions and remediation efforts will effectively remediate the material weakness described above or prevent the incidence of other material weaknesses in the Company's DCP and ICFR in the future. Management, including the CEO and CFO, does not expect that disclosure controls and procedures or internal control over financial reporting will prevent all errors, even as the remediation measures are implemented and further improved to address the material weakness. The design of any system of controls is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving the stated goals under all potential future conditions.

Other than the remediation efforts discussed above and the implementation of the Company's DCP and ICFR, there have been no changes in the Company's DCP and ICFR during the fiscal year ended December 31, 2018 that have materially affected, or are likely to materially affect, the Company's ICFR. Management has discussed these issues and remediation efforts with the Audit Committee of the Company's Board and the Board who will continue to review progress on these remediation activities on an ongoing basis.

#### **Additional Information**

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





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