



**Mimi's Rock Corp.**

**Condensed Consolidated Interim Financial  
Statements**

**For the Three and Nine Months Ended September 30, 2019 and 2018**

**(Expressed in Canadian dollars)**

**(Unaudited)**

**MIMI'S ROCK CORP.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**For the three and nine months ended September 30, 2019**

The following section of our report sets forth Management's Discussion and Analysis ("MD&A") of the financial performance and condition of Mimi's Rock Corp. ("the Company" or "Mimi", "we", "us" or "our") for the three and nine months ended September 30, 2019 compared to the three and nine months ended September 30, 2018. The analysis should be read in conjunction with the annual audited consolidated financial statements (the "Financial Statements") for Mimi's Rock Inc. and corresponding MD&As for the year ended December 31, 2018 and for the period from October 16, 2017 to December 31, 2017 and the related notes thereto.

The date of this MD&A is November 27, 2019.

**FORWARD-LOOKING STATEMENTS**

This MD&A contains certain statements or disclosures that may constitute forward-looking information or statements (collectively, "forward-looking information") under applicable securities laws. All statements and disclosures, other than those of historical fact, which address activities, events, outcomes, results or developments that management of the Company, anticipates or expects may or will occur in the future (in whole or in part) should be considered forward-looking information. In some cases, forward-looking information can be identified by terms such as "forecast", "future", "may", "will", "expect", "anticipate", "believe", "could", "potential", "enable", "plan", "continue", "contemplate", "pro forma" or other comparable terminology. Forward-looking information presented in such statements or disclosures may, among other things include:

- the Company's expectations regarding sales from its existing products, including its sales forecasts;
- the Company's ability to acquire new products;
- the Company's expectations regarding its ability to raise capital, including its ability to secure the financing necessary to enable us to acquire new products;
- the Company's expectations regarding sales from products that we develop, acquire or license;
- the Company's forecasts regarding its operating expenditures, including general and administrative expenses,
- the Company's expectations regarding the development of its target markets;
- the Company's expectations regarding government regulations of its products and any new products that we acquire;
- the Company's expectations regarding currency exchange rates;
- the Company's expectations regarding income taxes;
- the Company's plans, objectives and targets for future revenue growth and operating performance;

- the Company's plans and objectives regarding new products that it may acquire; and
- the Company's forecast business results and anticipated financial performance.

The forward-looking information in statements or disclosures in this MD&A is based (in whole or in part) upon factors which may cause actual results, performance or achievements of the Company to differ materially from those contemplated (whether expressly or by implication) in the forward-looking information. Those factors are based on information currently available to the Company, including information obtained from third-party industry analysts and other third party sources. Actual results or outcomes may differ materially from those predicted by such statements or disclosures. While the Company does not know what impact any of those differences may have, their business, results of operations, financial condition and credit stability may be materially adversely affected. Factors that could cause actual results or outcomes to differ materially from the results expressed or implied by forward-looking information include, among other things:

- the Company's ability to successfully market and sell its products;
- the Company's ability to increase sales of its existing products;
- the Company's ability to service existing debt;
- the timing and unpredictability of regulatory actions;
- the health, legal, and commercial risks associated with potential adverse events or side effects resulting from the use of the Company's products;
- the ability to source, develop and commercialize new products effectively;
- unanticipated cash requirements to support current operations to expand its business
- the inability to adequately protect its key intellectual property rights;
- the loss of key management personnel;
- the activities of its competitors and specifically the commercialization of products that compete in the same category as the Company's products;
- regulatory, legal or other setbacks with respect to its operations or business;
- market conditions in the capital markets and the dietary supplements industry that make raising capital or consummating acquisitions difficult, expensive or both;
- enactment of new government laws, regulations, court decisions, regulatory interpretations or other initiatives that are adverse to the Company or its interests;
- the risk that the Company is not able to arrange sufficient, cost-effective financing to repay maturing debt and to fund expenditures, future operational activities and acquisitions, and other obligations; and

- the risks associated with legislative and regulatory developments that may affect costs, revenues, the speed and degree of competition entering the market, global capital markets activity and general economic conditions in geographic areas where the Company operates.

Investors should review the full discussions as to material risks and uncertainties, and factors and assumptions used to develop forward-looking statements included in the Company's filing statement.

Various assumptions or factors are typically applied in drawing conclusions or making the forecasts or projections set out in forward-looking information. Those assumptions and factors are based on information currently available to the Company, including information obtained from third-party industry analysts and other third party sources. In some instances, material assumptions and factors are presented or discussed elsewhere in this MD&A in connection with the statements or disclosure containing the forward-looking information. You are cautioned that the following list of material factors and assumptions is not exhaustive. The factors and assumptions include, but are not limited to:

- no unforeseen changes in the legislative and operating framework for the business of the Company;
- a stable competitive environment; and
- no significant event occurring outside the ordinary course of business such as a natural disaster or other calamity.

The Company is not obligated to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by applicable laws. Because of the risks, uncertainties and assumptions contained herein, security holders should not place undue reliance on forward-looking statements or disclosures. The foregoing statements expressly qualify any forward-looking information contained herein.

The Company cautions you that the above list of risk factors is not exhaustive. Other factors which could cause actual results, performance or achievements of the Company to differ materially from those contemplated (whether expressly or by implication) in the forward-looking statements or other forward-looking information are disclosed in the Company's publicly filed disclosure documents.

All historical financial information is prepared in accordance with IFRS and is expressed in Canadian dollars.

## **CORPORATE HISTORY**

Mimi's Rock Corp., formerly known as Commerce Acquisition Corp. ("the Company"), was incorporated under the Ontario Business Corporations Act ("OBCA") on March 27, 2017. The Company was previously classified as a Capital Pool Company ("CPC") as defined in Policy 2.4 of the TSX Venture Exchange. The principal business of the Company as a CPC was to identify and evaluate assets or businesses with a view to potentially acquire them or an interest therein by completing a purchase transaction. The purpose of such an acquisition was to satisfy the related conditions of a qualifying transaction under the Exchange rules ("Qualifying Transaction").

On May 27, 2019, the Company completed its Qualifying Transaction pursuant to an amalgamation agreement between the Company and Mimi's Rock Inc. ("MRI"). As a part of the Qualifying Transaction, the Company changed its name from "Commerce Acquisition Corp." to "Mimi's Rock

Corp.” The Company is in the nutraceutical business, providing health supplement and wellness products as well as vitamins and nutritional supplements to customers across the United States.

The Company's head and registered office is located at 610 Chartwell Road, Suite 202, Oakville, Ontario, Canada L6J 4A5.

The Company operations include four subsidiaries. The place of incorporation or continuance of those subsidiaries and the percentage of voting securities held, directly or indirectly, by Mimi, are as follows:

Mimi’s Rock Inc. was incorporated under the Ontario Business Corporations Act (“OBCA”) on October 16, 2017. MRI is a wholly-owned subsidiary of Mimi’s Rock Corp.

Mimi's Rock GmbH (“MRG”) was incorporated on January 22, 2018, under the laws of Germany. MRG is a private company that is a wholly-owned subsidiary of MRI formed in connection with the acquisitions of DTI GmbH, as described below.

DTI GmbH (“DTI”) was incorporated as DTU UG on April 20, 2013 and reregistered as DTI GmbH on January 25, 2017, under the laws of Germany. DTI is a private company that is a wholly-owned subsidiary of MRG, which in turn is a wholly-owned subsidiary of MRI.

Thunder Beach Holdings Inc. (“TBH”) was incorporated on April 20, 2018 under the laws of Barbados, being the *Barbados Companies Act, 1982*. TBH is a private company that is a wholly-owned subsidiary of MRI. TBH is also licensed as an International Barbados Company pursuant to the *International Business Companies Act* (Barbados).

#### DTI GmbH

On July 13, 2018, the Company, through its subsidiary MRG, acquired all outstanding shares of DTI, a German limited liability company engaged in the business of marketing and selling nutraceuticals and nutritional supplements.

Pursuant to the acquisition, we acquired all rights to the Dr. Tobias brand and product line including information and materials required to continue marketing and selling the products, as well as certain tangible assets including cash, trade receivables, prepaid expenses, equipment and inventory and certain liabilities including trade payables. Total consideration for the acquisition was \$29,818,511 funded primarily from cash and including consideration in the form of stock options in the Company.

The transaction was accounted for as an acquisition of a business with Mimi as the acquirer, whereby all the DTI assets acquired and liabilities assumed were recorded at fair value.

The purchase price allocation is summarized as follows:

#### Purchase price consideration

Cash	\$ 29,574,420
Share options issued	244,091
Total purchase price consideration	\$ 29,818,511

The Company stock options granted as part of the consideration were assigned a fair value based on the Black-Scholes option pricing model using inputs of a volatility rate of 55% and a risk-free rate of 1.79% and an expected term of five years.

Costs incurred to complete the acquisition were approximately \$1,267,590, which were expensed in the period. The fair value of the acquired identifiable net assets was allocated as follows:

Cash	\$ 557,340
Trade and other receivables, net of allowance of \$nil	432,151
Inventories	1,527,749
Prepaid expenses	51,919
Property, plant and equipment	13,090
Intangible assets	11,466,550
Goodwill	19,826,596
Accounts payable and accrued liabilities	(347,703)
Provisions	(35,041)
Income taxes payable	(230,015)
Deferred tax liability	(3,444,124)
<b>Net assets acquired</b>	<b>\$ 29,818,511</b>

The determination of the fair value of assets acquired and liabilities assumed has been based upon management's estimates and certain assumptions with respect to the fair values of the net assets acquired and liabilities assumed except for deferred taxes, which are based on the full amount required under IAS 12, "Income Taxes."

The goodwill arising from the acquisition of \$19,826,596 is attributable to expected future income and cash-flow projections and other intangible factors that do not qualify for separate recognition. Goodwill is not expected to be deductible for tax purposes.

### **Reverse Takeover Acquisition and Amalgamation**

#### **The Qualifying Transaction**

On May 27, 2019, MRI amalgamated with a wholly owned subsidiary of Commerce Acquisition Corp. ("Commerce"). Pursuant to the amalgamation agreement, Commerce acquired all of the issued and outstanding common shares in the capital of MRI in consideration for the issuance of 47,809,337 Commerce common shares.

The transaction constituted the Company's Qualifying Transaction, as such term is defined in the CPC Policy. The Qualifying Transaction was completed by way of a three-cornered amalgamation among Commerce, MRI, and a wholly owned subsidiary of Commerce. Subsequent to the transaction, the Company changed its name to Mimi's Rock Corp.

The Qualifying Transaction constituted a reverse take-over ("RTO") for accounting purposes, as former MRI shareholders hold a majority of outstanding shares in the Company, the Board of Directors is comprised of MRI Board members and the senior management of MRI became senior management of the Company. Although the Company will be regarded as the legal parent, MRI is considered to be the acquirer for accounting purposes. Consequently, the Company will be deemed to be a continuation of MRI as control of the assets and operations of the Company is deemed to have been acquired through issuance of shares to the former shareholders of MRI. At the time of the RTO, the Company did not

constitute a business as defined under IFRS 3 Business Combinations; therefore, the transaction is accounted for under IFRS 2 Share-Based Payment. As a result, the transaction has been accounted for at the fair value of equity instruments issued by the Company to the option holders, warrant holders and shareholders of Commerce holding such equity instruments as of the date of the Qualifying Transaction. The difference between the fair value of equity instruments issued and the net assets acquired has been recognized as a listing expense.

The fair value of the acquired identifiable net assets was allocated as follows:

Cash	\$ 740,775
Accounts payable and accrued liabilities	(11,487)
Net assets acquired	729,288
Listing expense	385,487
<b>Total</b>	<b>\$ 1,114,775</b>
<b>Purchase consideration:</b>	
Issuance of 1,562,500 common shares	\$ 1,046,875
Issuance of 156,250 options	46,313
Issuance of 125,000 warrants	21,587
<b>Total purchase consideration</b>	<b>\$ 1,114,775</b>

The fair value of shares issued was determined to be \$0.67 per share based on the most recent financing transaction for MRI.

## CORPORATE STRATEGY

### Principal Products or Services

DTI is the Company's consumer-facing operating subsidiary. DTI sells market leading nutritional products online in the United States under the "Dr. Tobias" brand. DTI's products are offered under a single established brand, which includes 31 different nutraceutical products. DTI's products are exclusively manufactured by a third-party, FDA-approved, GMP-compliant manufacturer of nutraceutical products based in Georgia, United States. The Dr. Tobias brand features a number of top-sellers, including the #1 on-line Omega 3 Fish Oil product in the United States.

DTI offers e-commerce focused consumers a high quality, ultra-convenient, family of preferred products which support their overall wellness objectives. Boasting over 30 products, ranging from Colon Cleanse to Probiotics, Dr. Tobias products routinely garner segment leading reviews and ratings from its customers.

Our business model is "asset-light" and enjoys favourable terms with established custom manufacturing partners, who produce our products on a turn-key basis, allowing us to focus on marketing programs which drive above-industry-normal margins. We are well positioned to participate in the growing consumer trend toward shifting sales away from traditional brick-and-mortar retail, to e-commerce platforms. This growth is compounded by a global dietary supplements market which is growing at a CAGR of 10% (*Businesswire.com*).

DTI has built its reputation by offering tested, trusted products, which meet the discerning needs of wellness focused consumers, all while appealing to their preference for home-delivered goods which carry the certifications, as well as the reviews which they expect. Our customers have come to depend on the Dr. Tobias brand for quality, consistency and excellent customer service.

### *Development of Products*

Shifting consumer trends, supported by the wealth of available information available on the internet, sees many wellness minded individuals taking independent control of their health. Our products and distribution strategies dovetail into these trends as we produce high-quality products which are available almost exclusively on-line.

Our product development strategies are not tied to any one particular manufacturing technology. Rather, we source products in multiple formats and focus on consumer trends and preferences. We are also expanding our product families with complementary product lines such as companion-pet products and skin care. Our new product focus is trained on the needs and wants of our clientele, rather than being limited by manufacturing capabilities at any one site. Then, we leverage our current client bases trust in Dr. Tobias, to introduce new and complementary products.

### *Marketing*

Our marketing efforts are focused on the development and consistent marketing of our brand. We participate in the daily marketing and advertising programs managed by our current e-commerce distribution platform. Our team also manages a comprehensive social media strategy, which focuses on brand awareness and education. We will continue to focus our efforts principally on expanding our distribution platforms and geographies, solidifying our brand awareness and strategically adding complementary product lines.

### *Regulatory Environment*

We are subject to the laws and regulations governing the vitamins, minerals, supplements ("VMS") and natural health product industry. In the United States, this includes FDA and NSF oversight. The requirements vary by country, but in general, the US regulatory framework is a "light-touch" as compared to the pharmaceutical space. Regardless, we have taken an "as good as pharma" approach to partner selection. Currently, our manufacturing partners work in the continental United States, and are accordingly abiding by the state controlled labour and employment laws. Similarly, we abide by consumer protection regulations, environmental laws and all applicable regulations. We continuously monitor changes in these laws, regulations, treaties and agreements.

### *Dropshipping*

We currently operate our business using a supply-chain management system known as "dropshipping" whereby we facilitate the delivery of goods from a third-party manufacturer to a third-party distributor and then to the end-point consumer who places the associated order. We do not take physical possession of the goods in our inventory at any point during the ordering or delivery process.

### *Specialized Skills and Knowledge; Employees*

Successfully applying our supply-chain management system requires specialized skill. We have retained personnel with specialized knowledge and experience in such operations. In addition, we draw on the

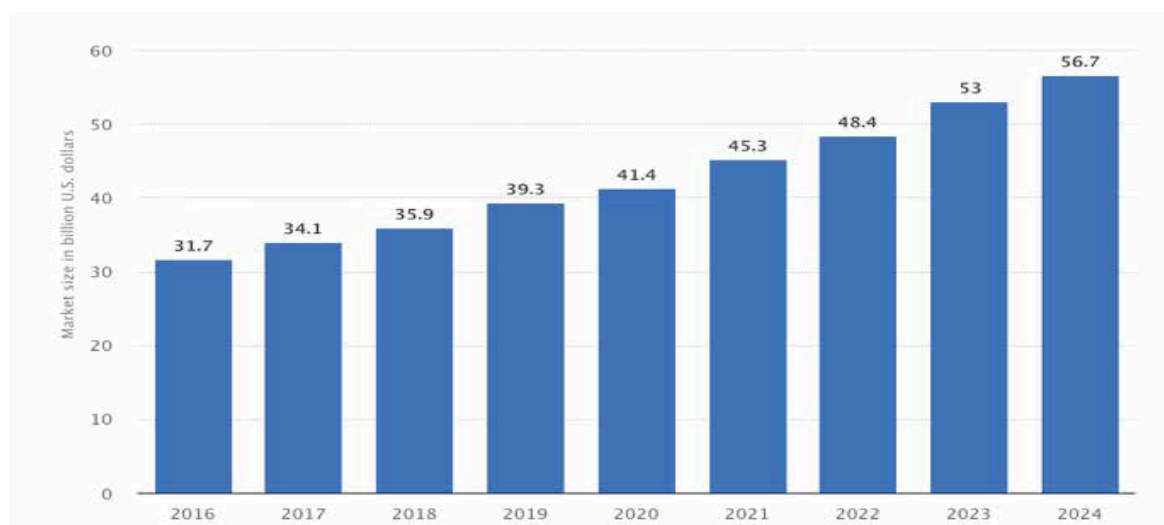


specialized knowledge and expertise of our personnel in our operations to effectively coordinate and track our intricate supply chain.

## Market & Trends

On-line sales offer convenience and assortment which are superior to almost any traditional brick-and-mortar retailers. On-line consumers routinely rely heavily on customer reviews and ratings. These ratings can be informed by both product characteristics and customer experience – including our after sale service. This is the sweet spot for the Dr. Tobias brand. We have tens of thousands of positive customer reviews, and routinely have very high ratings on multiple products. Within the on-line community, consumers trust each other to identify (or warn) their fellow shoppers of great (or poor) products and services. Dr. Tobias products are top sellers. They are highly rated. We are not dependent on retailers awarding us shelf space in order to reach our clientele.

### Dietary Supplements Market Size in the United States from 2016 to 2024 (in billion US\$)



Consumer healthcare in the United States (and beyond) is subject to shifting trends, spending patterns and economic cycles. Our revenue and financial results are linked to these trends, though the "tail winds" for our business are significant. Dietary supplements are enjoying 10% CAGR's globally. Further, many reports show the drift from brick-and-mortar retail to e-commerce in the United States is trending at greater than 9% per year. Together, these trends create a very favourable environment for our company. Clearly, these positive influences can be mitigated somewhat by conditions beyond our control. Consumer spending is easily influenced by prevailing economic conditions, unemployment levels, wage variances, fuel prices, consumer credit practices and consumer perceptions.

- Online shopping is growing globally at a CAGR of 9.6%.
- The United States is growing at 8.3%.
- Canada is growing at 7.9%.
- Historically, global e-commerce sales are growing at a rate of 23.3%.
- Global manufacturing continues to shift eastward, with India & China (on pace to be #1 globally), leading the way.
- Traditional brick and mortar retailers are struggling to compete with the convenience, price competitiveness, and product assortment available in the online world.

- E-commerce accounts for 8% of business to consumer transactions (by value) in the United States today. Even the most conservative estimates suggest this number will see a fourfold increase in the next decade.
- Online shopping is a thriving market. Retail e-commerce sales worldwide are forecasted to nearly double between 2016 & 2020.
- During an April 2017 survey, 40% of internet users in the United States stated that they purchased items online several times per month, and 20% said they bought items or services online on a weekly basis.

## **Marketing Plans and Strategies**

Consumers globally are turning to e-commerce at record pace. They seek assortment, convenience and competitive prices. These preferences align favourably with our positioning, and disadvantage traditional bricks-and-mortar retailers. Our growth strategies are founded on seizing upon these favourable market conditions. We will launch in additional markets, utilizing the same business approach that has been so successful in the United States. By leveraging local custom manufacturers, we can enter new markets by absorbing the additional operating expenses involved in launching the new products via the new portals. We need not invest capital in manufacturing or distribution facilities.

Meantime, we are expanding into new portals in the United States as well, to further diversify our position. Our revenue growth far outpaces the industry averages and continues to drive EBITDA at enviable levels, in comparison to other industry players.

## **Competitive Conditions**

The market for dietary supplements, vitamins and like items is highly fragmented and highly competitive. We compete with private-label offerings, national brands and both private and publicly owned companies. Many of the products with which we compete, are highly commoditized. Our strong brand is supported by digital marketing campaigns, advertising programs and direct to consumer campaigns. Our customer ratings and reviews are our most important asset in the marketing sphere. In this space, we have strong brand salience. Strong reviews and ratings inspire consumer confidence in a manner akin to the way traditional advertising relies on testimonials. As brick-and-mortar retailers struggle to retain their assortment and convenience seeking clientele, we stand as a trustworthy option for consumers. We are well-positioned to capitalize on favorable long-term trends in the VMS segment.

## **Future Developments**

The industry in which the Company operates is undergoing constant change and as such, management sees various business development and acquisition opportunities. We leverage our relationships and industry contacts and advisors to identify acquisition opportunities. We are currently engaged in several joint-venture and acquisition discussions with a number of companies and small brands. We are uniquely positioned in Canada, as a potential consolidator of small e-commerce companies. Mindful of this, and in conjunction with our banking partners, we have a number of ongoing discussions underway. We will pursue strategic acquisitions and alliances that enable us to further broaden and diversify our product offerings, always mindful of our asset-light strategy. Opportunities currently being explored involve new product development, geographic expansion, new distribution channels and other potentially beneficial third party relationships.

## Proprietary Protection

Our formulations are not currently protected by patents, however, our strength is in our brand. Recognition, supported by social media campaigns and very strong ratings and reviews, gives new (and existing) customers confidence in our brand. Mimi has registered the trademark "Dr. Tobias" in the United States with registration dated September 23, 2014 and registration number 4608650.

## OVERALL PERFORMANCE

For the three months ended September 30, 2019, the Company incurred a net loss of \$243,156 compared to a net loss of \$759,537 for the three months ended September 30, 2018. For the three months ended September 30, 2019, EBITDA<sup>1</sup> was \$626,540, compared to EBITDA of \$216,887 for the three months ended September 30, 2018. Adjusted EBITDA, which excludes non-cash share based compensation expense, investment income and acquisition costs, was \$902,776, compared to Adjusted EBITDA of \$1,530,973 for the same period in the prior year. As at September 30, 2019, the Company had an accumulated deficit of \$2,633,209.

Cash provided by operating activities of the Company was \$470,916 for the three months ended September 30, 2019, compared to \$2,469,398 for the three months ended September 30, 2018. Cash used in financing activities was \$463,121 for the three months ended September 30, 2019, primarily related to draws against the operating line and principal repayments of long term debt, compared to cash provided by operations of \$32,383,832 for the same period in 2018 due mainly to proceeds from debt and equity financings in connection with the acquisition of DTI.

Operating risks include but are not limited to: the Company's ability to attract and retain key personnel, effectively manage growth, and smoothly integrate newly acquired products and businesses; impact of new or existing innovative competing products, regulatory issues and risk that the Company may not be able to adequately protect the intellectual property surrounding its products, conflicts of interest among the Company's directors, officers, promoters and members of management; unanticipated expenses; changes in business strategy; impact of any negative publicity; general political and economic conditions; and acts of God and other unforeseeable events, natural or human-caused. Financial risks include but are not limited to the availability of capital to finance the Company's activities.

Our business' financial performance can be measured in the same way as any typical consumer health company, or similarly structured company of comparable form. Additionally, we look at certain key performance indicators which are more indicative of the health of an e-commerce business. These include: customer ratings, customer reviews, supply chain metrics (customer order fill rates, days of inventory on hand, inventory turns and replenishment metrics), as well as marketplace inventory score metrics.

The Company cannot anticipate or prevent all of the potential risks to its success, nor predict the impact of any such risk. To the extent possible, management implements strategies aimed at reducing or mitigating risks and uncertainties associated with its business.

### <sup>1</sup>*EBITDA – Non-IFRS Financial Measures*

The term EBITDA does not have any standardized meaning under IFRS and therefore may not be comparable to similar measures presented by other companies. The Company defines EBITDA as earnings before interest expense, taxes, depreciation and amortization (including impairment charges). Adjusted EBITDA is the same measure with additional adjustments for non-cash stock based

compensation), investment income or expense, foreign exchange (gain) loss and acquisition costs. The Company believes EBITDA and Adjusted EBITDA to be important measurements that allow it to assess the operating performance of its ongoing business on a consistent basis without the impact of amortization and impairment expenses, debt service obligations and other non-operating items. We exclude amortization and impairment expenses because their level depends substantially on non-operating factors such as the historical cost of intangible assets. The Company's method for calculating EBITDA may differ from that used by other issuers and, accordingly, this measure may not be comparable to EBITDA used by other issuers.

	Three Months Ended September 30		Nine Months Ended September 30	
	2019	2018	2019	2018
<b>Net loss for the period</b>	<b>\$ (243,156)</b>	<b>\$ (759,537)</b>	<b>\$ (1,091,290)</b>	<b>\$ (759,537)</b>
Interest expense	426,409	447,076	1,427,355	447,076
Income tax expense	402,618	528,443	1,763,522	528,443
Depreciation	40,669	905	84,874	905
<b>EBITDA</b>	<b>\$ 626,540</b>	<b>\$ 216,887</b>	<b>\$ 2,184,461</b>	<b>\$ 216,887</b>
Add/(deduct):				
Non-cash stock based compensation	123,747	326,685	530,919	326,685
Acquisition costs	-	993,306	-	993,306
Listing expenses	88,351	-	786,138	-
Foreign exchange loss	64,138	12,635	115,474	12,635
Investment income	-	(18,540)	(13,579)	(18,540)
<b>Adjusted EBITDA</b>	<b>\$ 902,776</b>	<b>\$ 1,530,973</b>	<b>\$ 3,603,413</b>	<b>\$ 1,530,973</b>

## SELECT QUARTERLY INFORMATION

### *Seasonality*

Our product lines are generally not susceptible to significant fluctuations as a result of seasonal variations, however, typically the early months of the year see somewhat stronger sales. Historic revenues have not indicated that any of the Company's products will have seasonal variations which would materially impact revenue.

### *Selected Financial Information*

Revenues for the three months ended September 30, 2019 were \$8,755,114 compared to \$8,522,950 for the three months ended September 30, 2018. Revenues represent sales of nutraceutical products in the U.S. market. Gross margin for the three months ended September 30, 2019 was \$6,114,962 compared to \$5,553,930 for the three months ended September 30, 2018. The Company reported a net loss for the three months ended September 30, 2019 of \$243,156, compared to a net loss of \$759,537 for the same period in 2018. Certain one-time expenses were incurred in both 2019 and 2018, primarily due to one-time costs related to reverse takeover and public listing expenses in 2019, as well as acquisition costs in 2019 related to the acquisition of DTI.

The following table sets forth selected quarterly consolidated financial information for the Company for three month periods ended 2019 and 2018:

**Summary Financial Information**

(in 000's)	<b>Three Months Ended 2019</b>			<b>Three Months Ended 2018</b>		
	<u>September 30</u>	<u>June 30</u>	<u>March 31</u>	<u>September 30</u>	<u>June 30</u>	<u>March 31</u>
Revenue	\$8,755	\$ 8,771	\$10,166	\$8,522	\$ nil	\$ nil
EBITDA	627	460	1,098	217	nil	nil
Adjusted EBITDA	903	1,382	1,318	1,531	nil	nil
Net Income (Loss)	(243)	(1,240)	392	(760)	nil	nil
Total Assets	\$36,337	\$36,425	\$39,152	\$34,543	\$ nil	\$ nil
Total Equity	\$20,455	\$20,216	\$17,704	\$16,122	\$ (8)	\$ (8)

<sup>1</sup>EBITDA – Non-IFRS Financial Measures - see definition under "Overall Performance"

**RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2019 AND 2018**

For the three months ended September 30, 2019, the Company incurred a net loss of \$243,156 (\$0.00 per share), compared to a net loss of \$759,537 (\$0.05 per share) for the three months ended September 30, 2018. EBITDA for the three months ended September 30, 2019 was \$626,540, compared to \$216,887 for the same period in 2018. Adjusted EBITDA, which adds back (deducts) non-cash stock based compensation, investment income, acquisition costs and listing expenses, was \$902,776 for the three months ended September 30, 2019, compared to \$1,530,973 Adjusted EBITDA for the same three month period in 2018.

**Revenues and Gross Margin**

Revenues were \$8,755,114 for the three months ended September 30, 2019 compared to revenues of \$8,522,950 for the three month period ended September 30, 2018. Revenues reported in the current and prior year primarily represent revenues from the DTI business, which was acquired in July 13, 2018. While the Company's sales do not experience significant seasonality, there is some fluctuation on a quarterly basis due to natural demand fluctuation as well as promotional impacts. The Company continues to adapt and further its brand strategy. Online advertising in the period was increased with a focus on brand awareness and customer loyalty. Sales from its own e-commerce site, drtobias.com, as well through additional online retail outlets continued to grow, however, a majority of revenue continues to be generated on the Amazon platform.

Revenues to date have been generated almost entirely through the Company's online sales channel in the United States. Fulfillment of sales is provided by an e-commerce provider who is responsible for processing the sales transaction, delivering the product, collecting from the customer and processing any returns as required. Products are warehoused and stored by the e-commerce provider which allows for distribution anywhere in the U.S. within days of the order. The Company pays a fee for this service which consists of a flat fee per product shipped and a variable fee based on a percentage of the sales transaction. The Company is responsible for providing any customer service and handling of any questions or complaints. Costs of processing and fulfilling the transaction are deducted from gross proceeds of the sale and paid to the Company on a bi-weekly basis. The Company is provided with

detailed reports of all sales transactions, inventory levels and returns which are analyzed by the Company and allows for appropriate inventory replenishment. As the primary e-commerce provider is a large, well established organization, collection risk is considered very low.

Gross margin for the three months ended September 30, 2019 was \$6,114,962 (70%) compared to \$5,553,930 (65%) for the three month period ended September 30, 2018. Gross margin ratios have improved over the comparative period as the Company works with its supplier to obtain better pricing and efficiencies.

### **Selling and Marketing Expense**

The Company incurred selling and marketing expenses of \$4,014,971, or approximately 46% of revenue, for the three months ended September 30, 2019, compared to \$3,300,945, or 39% of revenue, for the three months ended September 30, 2018. Advertising spend in the third quarter of 2019 was increased with a deliberate focus on attracting longer term repeat customers. While the brand continues to generate strong repeat sales, investments are also being made attract new-to-brand customers. While this type of ad spend does not necessarily translate to immediate revenue, it is important to the overall brand growth strategy. Sales and marketing expenses for the period consist primarily of fulfillment costs related to delivering products to customers, direct online advertising placements, costs related to marketing the Dr. Tobias brand and other promotional and awareness initiatives. The Company will continue to actively monitor its selling and marketing expenses, particularly those directly related to advertising and expects that these will vary in relation to sales revenues going forward as advertising spend is optimized relative to competitive conditions.

### **General and Administrative Expense**

General and administrative expenses for the three months ended September 30, 2019 were \$1,197,215, compared to \$722,012 for the same period in 2018. General and administrative expenses consist primarily of salaries and benefits, professional fees, occupancy costs and insurance. General and administrative expenses in the 2019 period are higher than the same period in 2018 primarily due to higher overall staff levels and considerably more operational activity.

### **Share based Compensation Expense**

Share based compensation expense relates to awards under the Company's incentive stock option plan and is based on the estimated number of awards that will eventually vest using the Black-Scholes option pricing model. Share based compensation expense for the three months ended September 30, 2019 was \$123,747 compared to \$326,685 for the three months ended September 30, 2018. Share based compensation expense in 2018 was considerably higher due to initial vesting of original employee grants.

### **Listing Expenses**

Listing expenses related to the acquisition and reverse takeover transaction for the three months ended September 30, 2019 were \$88,351, compared to \$nil for the same period in the prior year. Listing expenses in the period relate to legal and professional fees in connection with the Company's public listing in May 2019.

### **Foreign Exchange Gains and Losses**

Foreign exchange losses of \$64,138 were recorded in the three months ended September 30, 2019, compared to \$12,635 for the three months ended September 30, 2018, primarily due to the movements in

the value of the US dollar relative to the Euro between the time that expenses were incurred and the time that they were settled.

### **Interest Expense and Financing Costs**

Interest and financing costs of \$426,409 were incurred during the three months ended September 30, 2019, compared to \$447,076 for the three months ended September 30, 2018. Interest and financing expenses in the 2019 period include approximately \$183,543 (2018: \$137,106) in non-cash charges related to amortization of expenses incurred in securing the Company's senior secured loan.

### **RESULTS OF OPERATIONS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2019 AND 2018**

For the nine months ended September 30, 2019, the Company incurred a net loss of \$1,091,290 (\$0.03 per share), compared to a net loss of \$759,537 (\$0.05 per share) for the nine month period ended September 30, 2018. EBITDA for the nine months ended September 30, 2019 was \$2,184,461, compared to \$216,887 EBITDA for the same period in the prior year. Adjusted EBITDA, which adds back (deducts) non-cash stock based compensation, investment income, acquisition costs and listing expenses, was \$3,603,413 for the nine months ended September 30, 2019, compared to \$1,530,973 for the same period in 2018.

### **Revenues and Gross Margin**

Revenues were \$27,692,245 for the nine months ended September 30, 2019 compared to revenues of \$8,522,950 for the nine months ended September 30, 2018. Revenues reported in the current and prior year primarily represent revenues from the DTI business, which began to accrue to the Company from July 13, 2018, the date of acquisition. Revenues from the core business have remained strong with some seasonality. The Company has begun to add additional sales channels through the launch of its own e-commerce site and sales to other e-commerce outlets. Going forward, growth is expected to come from launch of product sales in additional geographic regions as well as other online portals.

Gross margin for the nine months ended September 30, 2019 was \$19,448,177 (70%) compared to \$5,553,930 (65%) for the nine months ended September 30, 2018. Gross margins have increased several percentage points since the acquisition of the business and the Company expects margins to stabilize going forward.

### **Selling and Marketing Expense**

The Company incurred selling and marketing expenses of \$12,040,957, or approximately 43% of revenue, for the nine months ended September 30, 2019, compared to \$3,300,945, or 39% of revenue, for the nine months ended September 30, 2018. Sales and marketing expenses for the period consist primarily of fulfillment costs related to delivering products to customers, direct online advertising placements, costs related to marketing the Dr. Tobias brand and other promotional and awareness initiatives. Advertising spend tends to have a direct effect on sales volumes such that additional advertising spend increases sales, while conversely, reducing spend tends to negatively impact sales volumes. Advertising, and consequently sales and marketing expenses, are expected to be somewhat variable over the remainder of 2019 as the Company refines and optimizes its advertising strategy.

### **General and Administrative Expense**

General and administrative expenses for the nine months ended September 30, 2019 were \$3,803,807, compared to \$722,012 for the same period in 2018. General and administrative expenses consist

primarily of salaries and benefits, professional fees, occupancy costs and insurance. While general and administrative expenses in the 2018 period were lower due to ramping up of operations, the 2019 period were also slightly higher than typical primarily due to one-time costs associated with operational start-up and time and efforts spent engaged in understanding and integrating the DTI business.

### **Share based Compensation Expense**

Share based compensation expense relates to awards under the Company's incentive stock option plan and is based on the estimated number of awards that will eventually vest using the Black-Scholes option pricing model. Share based compensation expense for the nine months ended September 30, 2019 was \$530,919 compared to \$326,685 for the nine month period ended September 30, 2018.

### **Listing Expenses**

Listing expenses related to the acquisition and reverse takeover transaction for the nine months ended September 30, 2019 were \$786,138, compared to \$nil for the same period in the prior year. Listing expenses consist primarily of legal, accounting and other professional fees associated with the reverse takeover and amalgamation, as well as non-cash costs related to equity instruments issued for the acquisition.

### **Foreign Exchange Gains and Losses**

Foreign exchange losses of \$115,474 were recorded in the nine months ended September 30, 2019, compared to \$12,635 for the same period in 2018, primarily due to greater movements in 2019 in the value of the US dollar relative to the Euro between the time that expenses were incurred and the time that they were settled.

### **Interest Expense and Financing Costs**

Interest and financing costs of \$1,427,355 were incurred during the nine months ended September 30, 2019, compared to \$447,076 for the nine months ended September 30, 2018. Interest and financing expenses include approximately \$567,044 (2018: \$137,106) in non-cash charges related to amortization of expenses incurred in securing the Company's senior secured loan. These finance charges are being amortized over the term of the loan. Financing costs also include approximately \$88,212 in non-cash charges related to dividends in kind paid on the Preferred B shares prior to conversion to common shares in connection with the reverse takeover acquisition.

## **LIQUIDITY AND CAPITAL RESOURCES**

The Company currently manages its capital structure and makes adjustments to it, based on cash resources expected to be available to the Company, in order to support its future business plans. As at September 30, 2019, excluding provisions and obligations related to long term debt and lease obligations, the Company had working capital of \$2,815,826, compared to \$3,600,997 at December 31, 2018. Working capital, including provisions and obligations related to long term debt was \$314,766 at September 30, 2019, compared to \$1,279,966 at December 31, 2018. The decrease in working capital in the current year was due primarily to cash used for scheduled debt repayments.

Cash provided by operations of the Company was \$470,916 for the three months ended September 30, 2019, compared to \$1,597,047 for the same period in 2018. The cash flows from operations in the current year period was primarily a result of revenues earned from the DTI business, offset by payments of



interest and taxes. Cash provided in the prior period was mainly due to an expansion of accounts payable due to agreed deferrals of payments of commissions and fees related to the equity offering.

Cash used in financing activities for the three months ended September 30, 2019 was \$436,121, compared to cash provided by financing of \$32,383,832 for the three months ended September 30, 2018. Cash used in the 2019 period primarily relates to scheduled debt repayments offset by draws against the operating line, whereas cash provided by financing activities in the 2018 period relate primarily to proceeds from the equity offering and debt financing in connection with the acquisition of DTI.

Cash used in investing activities was \$81,030 for the three months ended September 30, 2019, compared to \$31,635,251 for the three months ended September 30, 2018. Cash from financing activities in the current year period relates to purchases of property and equipment, whereas cash used in the 2018 period primarily relates to the acquisition of the DTI business.

The Company's plan of operations in the next twelve months is to satisfy short-term debt obligations, while expanding its product line, sales channels and geographic markets. The Company's operations will be funded primarily from working capital and cash generated from operations. As a result of the acquisition of DTI in 2018, the Company expects to generate positive cashflow on a quarterly basis. As the business is not capital intensive, operations will not require the Company to raise additional cash through equity or debt issuances. Additional capital may be required should the Company decide to pursue acquisitions, however, any such transactions are expected to increase cashflow and are not expected to impact operating cash requirements. Management reviews the capital management approach on an ongoing basis and believes that this approach is reasonable given the current state of financial markets. In the case of uncertainty over the ability to raise funds in current or future economic conditions, the Company would manage capital by minimizing ongoing expenses and has access to an operating line of credit for day-to-day requirements.

## COMMITMENTS

### (a) Operating lease commitments

The Company has entered into non-cancellable operating lease agreements for office premises and equipment with minimum annual lease payments to expiry as follows:

	September 30 2019	December 31 2018
Less than 1 year	\$ 128,170	\$ 119,010
1 to 2 years	128,648	126,001
2 to 3 years	102,860	126,505
3 to 4 years	84,978	129,242
Thereafter	219,526	290,031
<b>Total</b>	<b>\$ 664,182</b>	<b>\$ 790,789</b>

(b) Liability settlement

The table below analyzes the Company's non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows and do not include capitalized transaction costs.

At September 30, 2019	Total	Fiscal year ended December 31			
		2019	2020	2021	Thereafter
Long term debt	\$11,610,646	\$ 759,000	\$ 3,036,000	\$ 7,815,646	\$ -
Lease liability	633,413	32,150	128,962	125,506	346,795
Accounts payable and accrued liabilities	905,338	905,338	-	-	-
Provisions	45,845	45,845			
<b>Total</b>	<b>\$13,195,242</b>	<b>\$ 1,742,333</b>	<b>\$ 3,164,962</b>	<b>\$ 7,941,152</b>	<b>\$ 346,795</b>

#### OFF BALANCE SHEET ARRANGEMENTS

The Company has no off balance sheet arrangements.

#### RELATED PARTY TRANSACTIONS

At September 30, 2019 and 2018, there were no amounts owing to or from related parties, other than the loan receivable as described below. The remuneration of directors and other members of key management personnel recorded in the general and administrative line of operating expenses are as follows:

	Three months ended September 30		Nine months ended September 30	
	2019	2018	2019	2018
Salaries	\$ 459,062	\$ 285,094	\$ 1,332,974	\$ 285,094
Share based compensation	79,392	172,438	337,912	172,438
	<b>\$ 538,454</b>	<b>\$ 457,532</b>	<b>\$ 1,670,886</b>	<b>\$ 457,532</b>

In February 2019, the Company advanced US\$50,000 (\$66,215) as a short term loan to Iconacy Orthopedic Implants Inc., a company controlled by certain of the Company's officers and directors, for the purpose of short term working capital needs. The loan is in the form of an unsecured promissory note bearing interest at 8% and is due November 30, 2019. This amount has been included in trade and other receivables.

## CHANGES IN ACCOUNTING POLICIES AND ESTIMATES

### *Accounting policies*

During the nine months ended September 30, 2019 the following new or amended standards were issued and are effective for annual periods beginning on or after January 1, 2019, unless otherwise noted.

#### (i) Recently adopted accounting standards

##### *IFRS 16 - Leases*

In January 2016, the IASB issued IFRS 16, Leases, which will replace IAS 17, Leases and the related interpretations. This standard introduces a single lessee accounting model and requires all leases of more than twelve months to be reported on a company's statement of financial position as assets and liabilities, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. This standard substantially carries forward the lessor accounting requirements of IAS 17, while requiring enhanced disclosures to be provided by lessors. Other areas of the lease accounting model have also been impacted, including the definition of a lease. Transitional provisions have been provided. The new standard is effective for annual periods beginning on or after January 1, 2019. The Company adopted IFRS 16 using the modified retrospective transition method. The nature of expenses related to leases will now change because the Company will recognize a depreciation charge for right-of-use assets and interest expense on lease liabilities. Previously, the Company recognized operating lease expense on a straight-line basis over the term of the lease. The Company does not expect that the adoption of the standard will have a material effect on the consolidated financial statements, other than that its operating leases will need to be recognized in its consolidated statement of financial position on initial adoption of IFRS 16.

## FINANCIAL RISK MANAGEMENT

The use of financial instruments can expose the Company to several risks, including market, credit and liquidity risks. Apart from the risks listed below, management is of the opinion that they are not exposed to any other significant risks. A discussion of the Company's use of financial instruments and its risk management is provided below.

#### (i) Liquidity risk

Liquidity risk is the risk that the Company will not have sufficient cash resources to meet its financial obligations as they come due. The Company's liquidity and operating results may be adversely affected if the Company's access to the capital markets is hindered, whether as a result of a downturn in stock market conditions generally or related to matters specific to the Company. In order to mitigate this risk, the Company maintains a sufficient cash balance in order to satisfy short-term liabilities as they come due and actively pursues raising capital through various financing mechanisms to satisfy longer term needs.

#### (ii) Market risk

Market risk is the risk that the fair value of, or future cash flows from, the Company's financial instruments will significantly fluctuate because of changes in market prices. The value of the financial instruments can be affected by changes in interest rates, foreign exchange rates, and equity and

commodity prices. The Company is not exposed to significant market risk given the low value of its investments.

(iii) Currency risk

The Company is subject to currency risk through its sales of products denominated in foreign currencies, purchases of inventory in US dollars and product acquisitions denominated in foreign currencies. As such, changes in the exchange rate affect the operating results of the Company. Dependent on the nature, amount and timing of foreign currency receipts and payments, the Company may from time to time enter into foreign currency derivative contracts to reduce its exposure to foreign currency risks

(iv) Credit risk

Certain of the Company's financial assets, including cash and cash equivalents and short-term investments, and accounts receivable are exposed to the risk of financial loss occurring as a result of default of a counterparty on its obligations to the Company. The Company is also exposed, in the normal course of business, to credit risk from customer receivables. These amounts are continually monitored by management for collectability, and, in general, are lower risk as they are typically due from large commercial partners with very limited credit risk.

(v) Interest rate risk

Interest risk is the impact that changes in interest rates could have on the Company's earnings and liabilities. The Company is exposed to variable interest rates as a result of its senior secured debt, which currently bears interest at the Canadian BA rate plus 3.0%. Given the historical variability in the BA rate, it is management's opinion that the Company is not currently exposed to significant interest rate risk.

## **DISCLOSURE CONTROLS AND PROCEDURES**

Disclosure controls and procedures form a framework designed to provide reasonable assurance that information disclosed publicly fairly presents in all material respects the financial condition, results of operations and cash flows of the Company for the periods presented in this MD&A. The Company's disclosure controls and procedures framework includes processes designed to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to management by others within those entities to allow timely decisions regarding required disclosure.

The Company's management, with the participation of its CEO and CFO is responsible for establishing and maintaining adequate internal control over financial reporting. The Company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

There were no material changes made to the Company's internal controls over financial reporting during the three months ended September 30, 2019 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting. In addition, management assessed disclosure controls and procedures to be effective as of September 30, 2019.

## **DISCLOSURE OF OUTSTANDING SHARE DATA**

### **Common Shares**

The Company's authorized share capital consists of an unlimited number of common shares without par value. As at November 27, 2019 the Company had 49,559,337 common shares issued and outstanding.

### **Stock Options**

The Company has 4,857,500 stock options outstanding as at November 27, 2019.

### **Share Purchase Warrants**

The Company has 2,850,440 share purchase warrants outstanding as at November 27, 2019.

## **ADDITIONAL INFORMATION**

Additional information about the Company is available on SEDAR at <http://www.sedar.com>.

**Mimi's Rock Corp.**  
**Condensed Consolidated Interim Statements of Financial Position**  
**(Unaudited)**  
**(Expressed in Canadian dollars)**

<b>As at:</b>		<b>September 30</b>	<b>December 31</b>
		<b>2019</b>	<b>2018</b>
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents		\$ 1,827,804	\$ 2,646,151
Short-term investments	<i>note 4</i>	-	2,756,299
Trade and other receivables		265,450	617,016
Inventories		949,757	1,241,217
Income taxes recoverable		752,508	-
Prepaid expenses		306,820	78,558
		<b>4,102,339</b>	<b>7,339,241</b>
<b>Non-current assets</b>			
Property and equipment	<i>note 5</i>	279,871	56,856
Right of use assets	<i>note 6</i>	678,404	-
Intangible assets	<i>note 7</i>	11,460,492	11,807,518
Goodwill	<i>note 8</i>	19,816,251	20,408,899
<b>Total assets</b>		<b>\$ 36,337,357</b>	<b>\$ 39,612,514</b>
<b>Liabilities and Equity</b>			
<b>Current liabilities</b>			
Operating line		\$ 325,000	\$ 529,000
Accounts payable and accrued liabilities		905,338	2,875,589
Income taxes payable		56,175	333,655
Provisions	<i>note 9</i>	45,845	34,970
Current portion of lease liability	<i>note 10</i>	79,292	-
Current portion of long term debt	<i>note 11</i>	2,375,923	2,286,061
		<b>3,787,573</b>	<b>6,059,275</b>
<b>Non-current liabilities</b>			
Lease liability	<i>note 10</i>	601,356	-
Long term debt	<i>note 11</i>	8,172,134	9,965,510
Preferred shares	<i>note 13</i>	-	2,728,800
Deferred income taxes		3,320,921	3,064,185
<b>Total liabilities</b>		<b>15,881,984</b>	<b>21,817,770</b>
<b>Equity</b>			
Share capital	<i>note 12</i>	21,247,098	663,502
Preferred shares	<i>note 13</i>	-	15,819,863
Contributed surplus		1,915,581	1,376,860
Deficit		(2,633,209)	(953,451)
Accumulated other comprehensive income		(74,097)	887,970
<b>Total equity</b>		<b>20,455,373</b>	<b>17,794,744</b>
<b>Total liabilities and equity</b>		<b>\$ 36,337,357</b>	<b>\$ 39,612,514</b>

Approved on behalf of the Board:

(signed) Telfer Hanson

Director

(signed) Norman Betts

Director

The accompanying notes are an integral part of these condensed consolidated interim financial statements

**Mimi's Rock Corp.**  
**Condensed Consolidated Interim Statements of Operations**  
**(Unaudited)**  
**(Expressed in Canadian dollars)**

	<b>Three Months Ended September 30</b>		<b>Nine Months Ended September 30</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
Revenues	\$ 8,755,114	\$ 8,522,950	\$ 27,692,245	\$ 8,522,950
Cost of goods sold	2,640,152	2,969,020	8,244,068	2,969,020
<b>Gross margin</b>	<b>6,114,962</b>	<b>5,553,930</b>	<b>19,448,177</b>	<b>5,553,930</b>
<b>Operating expenses:</b>				
Selling and marketing	4,014,971	3,300,945	12,040,957	3,300,945
General and administrative	1,197,215	722,012	3,803,807	722,012
Share-based compensation <i>note 12</i>	123,747	326,685	530,919	326,685
Acquisition costs	-	993,306	-	993,306
Listing expenses <i>note 3</i>	88,351	-	786,138	-
Depreciation <i>note 5, 6</i>	40,669	905	84,874	905
Foreign exchange losses	64,138	12,635	115,474	12,635
	<b>5,529,091</b>	<b>5,356,488</b>	<b>17,362,169</b>	<b>5,356,488</b>
<b>Income before undernoted</b>	<b>585,871</b>	<b>197,442</b>	<b>2,086,008</b>	<b>197,442</b>
Interest expense and financing costs	426,409	447,076	1,427,355	447,076
Investment income	-	(18,540)	(13,579)	(18,540)
<b>Income (loss) before income taxes</b>	<b>159,462</b>	<b>(231,094)</b>	<b>672,232</b>	<b>(231,094)</b>
Income tax expense - current <i>note 16</i>	415,418	528,443	1,418,910	528,443
- deferred <i>note 16</i>	(12,800)	-	344,612	-
<b>Net loss for the period</b>	<b>\$ (243,156)</b>	<b>\$ (759,537)</b>	<b>\$ (1,091,290)</b>	<b>\$ (759,537)</b>
<b>Net loss per share</b>				
Basic	\$ -	\$ (0.05)	\$ (0.03)	\$ (0.05)
Diluted	\$ -	\$ (0.05)	\$ (0.03)	\$ (0.05)
<b>Weighted average number of common shares outstanding</b>	<b>49,559,337</b>	<b>15,907,755</b>	<b>31,601,758</b>	<b>15,301,481</b>
<b>Weighted average number of common shares outstanding</b>	<b>49,559,337</b>	<b>15,907,755</b>	<b>31,601,758</b>	<b>15,301,481</b>

The accompanying notes are an integral part of these condensed consolidated interim financial statements

**Mimi's Rock Corp.**  
**Condensed Consolidated Interim Statements of Comprehensive Loss**  
**(Unaudited)**  
**(Expressed in Canadian dollars)**

	<b>Three Months Ended September 30</b>		<b>Nine Months Ended September 30</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
<b>Loss for the period</b>	<b>\$ (243,156)</b>	<b>\$ (759,537)</b>	<b>\$ (1,091,290)</b>	<b>\$ (759,537)</b>
<b>Other comprehensive income (loss)</b>				
Items that may be reclassified to income:				
Currency translation differences	<b>359,043</b>	<b>(746,843)</b>	<b>(962,067)</b>	<b>(746,843)</b>
<b>Other comprehensive income (loss) for the period</b>	<b>359,043</b>	<b>(746,843)</b>	<b>(962,067)</b>	<b>(746,843)</b>
<b>Total comprehensive income (loss)</b>	<b>\$ 115,887</b>	<b>\$ (1,506,380)</b>	<b>\$ (2,053,357)</b>	<b>\$ (1,506,380)</b>

The accompanying notes are an integral part of these condensed consolidated interim financial statements



**Mimi's Rock Corp.**  
**Condensed Consolidated Interim Statements of Cash Flows**  
**(Unaudited)**  
**(Expressed in Canadian dollars)**

	<b>Three Months Ended September 30</b>		<b>Nine Months Ended September 30</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
<b>Operating activities</b>				
Net loss for the period	\$ (243,156)	\$ (759,537)	\$ (1,091,290)	\$ (759,537)
<b>Adjustments for the following items:</b>				
Depreciation	40,669	905	84,874	905
Interest expense	426,409	447,076	1,427,355	447,076
Income tax expense	402,618	528,443	1,763,522	528,443
Unrealized foreign exchange losses	66,392	(109,727)	(130,359)	(109,727)
Share-based compensation	123,747	326,685	530,919	326,685
Non-cash listing expenses	-	-	385,487	-
Interest paid	(228,259)	(309,970)	(729,150)	(309,970)
Income taxes paid	(494,644)	(127,030)	(2,465,515)	(127,030)
<b>Net change in non-cash working capital balances:</b>				
Provisions	16,020	(4,028)	10,875	(4,028)
Trade and other receivables	290,968	(602,813)	351,566	(602,813)
Prepaid expenses	(195,669)	(48,717)	(228,262)	(48,717)
Inventories	377,045	464,797	291,460	464,797
Accounts payable and accrued liabilities	(111,224)	2,226,412	(1,817,518)	2,226,412
Income taxes payable	-	(230,015)	-	(230,015)
Future taxes	-	(205,434)	-	(205,434)
<b>Net cash provided by (used in) operating activities</b>	<b>470,916</b>	<b>1,597,047</b>	<b>(1,616,036)</b>	<b>1,597,047</b>
<b>Financing activities</b>				
Advances (repayments) on operating line	325,000	-	(204,000)	-
Proceeds from debt issuance, net of issuance costs	-	14,099,584	-	14,099,584
Payment of lease obligations	(29,121)	-	(89,499)	-
Repayment of long-term debt	(759,000)	(506,000)	(2,277,000)	(506,000)
Proceeds from stock option exercise	-	-	120,060	-
Proceeds from warrant exercise	-	-	5,000	-
Proceeds from issuance of preferred shares, net	-	18,790,248	-	18,790,248
<b>Net cash (used in) provided by financing activities</b>	<b>(463,121)</b>	<b>32,383,832</b>	<b>(2,445,439)</b>	<b>32,383,832</b>
<b>Investing activities:</b>				
Cash acquired in acquisition	-	-	740,775	-
Acquisition of business, net of cash acquired	-	(29,017,080)	-	(29,017,080)
Purchase of property and equipment	(81,030)	(21,777)	(253,946)	(21,777)
Proceeds from short-term investments	-	(2,596,394)	2,756,299	(2,596,394)
<b>Net cash (used in) provided by investing activities</b>	<b>(81,030)</b>	<b>(31,635,251)</b>	<b>3,243,128</b>	<b>(31,635,251)</b>
<b>Net change in cash and cash equivalents</b>	<b>\$ (73,235)</b>	<b>2,345,628</b>	<b>\$ (818,347)</b>	<b>2,345,628</b>
<b>Cash and cash equivalents, beginning of period</b>	<b>1,901,039</b>	<b>-</b>	<b>2,646,151</b>	<b>-</b>
<b>Cash and cash equivalents, end of period</b>	<b>\$ 1,827,804</b>	<b>\$ 2,345,628</b>	<b>\$ 1,827,804</b>	<b>\$ 2,345,628</b>

The accompanying notes are an integral part of these condensed consolidated interim financial statements

**Mimi's Rock Corp.**  
**Condensed Consolidated Interim Statements of Changes in Equity**  
**(Unaudited)**  
**(Expressed in Canadian dollars)**

	Share capital	Contributed Surplus	Preferred Shares	Accumulated deficit	Accumulated other comprehensive income (AOCI)	Total equity
<b>Balance, December 31, 2017</b>	\$ 2	\$ -	\$ -	\$ (8,350)	\$ -	\$ (8,348)
Common shares and warrants issued in connection with debt financing	663,500	245,840	-	-	-	909,340
Private placement, net		337,185	15,819,863	-	-	16,157,048
Share-based compensation	-	549,744	-	-	-	549,744
Net loss for the period	-	-	-	(759,537)	-	(759,537)
Other comprehensive loss	-	-	-	-	(746,843)	(746,843)
<b>Balance, September 30, 2018</b>	<b>\$ 663,502</b>	<b>\$ 1,132,769</b>	<b>\$ 15,819,863</b>	<b>\$ (767,887)</b>	<b>\$ (746,843)</b>	<b>\$ 16,101,404</b>
<b>Balance, December 31, 2018</b>	<b>\$ 663,502</b>	<b>\$ 1,376,860</b>	<b>\$ 15,819,863</b>	<b>\$ (953,451)</b>	<b>\$ 887,970</b>	<b>\$ 17,794,744</b>
Correction to net proceeds of preferred shares	-	-	164,220	-	-	\$ 164,220
Common shares, options and warrants issued in connection with RTO	1,046,875	67,900	-	-	-	1,114,775
Dividends to preferred shareholders	-	-	588,468	(588,468)	-	-
Conversion of preferred A shares	16,572,551	-	(16,572,551)	-	-	-
Conversion of preferred B shares	2,779,012	-		-	-	2,779,012
Share-based compensation	-	530,919	-	-	-	530,919
Stock option exercise	178,572	(58,512)	-	-	-	120,060
Warrant exercise	6,586	(1,586)	-	-	-	5,000
Net loss for the period	-	-	-	(1,091,290)	-	(1,091,290)
Other comprehensive loss	-	-	-	-	(962,067)	(962,067)
<b>Balance, September 30, 2019</b>	<b>\$ 21,247,098</b>	<b>\$ 1,915,581</b>	<b>\$ -</b>	<b>\$ (2,633,209)</b>	<b>\$ (74,097)</b>	<b>\$ 20,455,373</b>

The accompanying notes are an integral part of these condensed consolidated interim financial statements

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**Mimi's Rock Corp.**  
**Notes to Condensed Consolidated Interim Financial Statements**  
**(Unaudited)**  
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**For the three and nine months ended September 30, 2019 and 2018**

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**1. Presentation of Financial Statements**

Nature of Business

Mimi's Rock Corp., formerly known as Commerce Acquisition Corp. ("the Company"), was incorporated under the Ontario Business Corporations Act ("OBCA") on March 27, 2017. The Company and its subsidiaries operate in Canada and Europe. The head office of the Company is 610 Chartwell Road, Suite 202, Oakville, Ontario. The Company is a marketer and distributor of dietary supplements, vitamins and other wellness products through an online channel to its customers in the United States.

The Company was previously classified as a Capital Pool Company ("CPC") as defined in Policy 2.4 of the TSX Venture Exchange. The principal business of the Company as a CPC was to identify and evaluate assets or businesses with a view to potentially acquire them or an interest therein by completing a purchase transaction. The purpose of such an acquisition was to satisfy the related conditions of a qualifying transaction under the Exchange rules ("Qualifying Transaction").

On May 27, 2019, the Company completed its Qualifying Transaction pursuant to an amalgamation agreement between the Company and a private corporation, Mimi's Rock Inc. ("MRI"). As a part of the Qualifying Transaction, the Company changed its name from "Commerce Acquisition Corp." to "Mimi's Rock Corp." and consolidated its 6,250,000 common shares on a 4:1 basis to 1,562,500 common shares. In connection with the Qualifying Transaction, MRI amalgamated with the wholly owned subsidiary of the Company and the newly amalgamated entity continued as MRI and MRI shareholders exchanged their shares for all of the outstanding shares of the Company with the former shareholders of MRI receiving a total of 47,809,337 post-consolidation common shares.

Basis of Preparation

These unaudited condensed consolidated interim financial statements ("interim financial statements") of the Company have been prepared on a historical cost basis, except for certain financial assets which are presented at fair value, in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IASB") ("IFRS") for interim financial statements. The interim financial statements have been prepared on a basis consistent with the Company's annual audited consolidated financial statements for the year ended December 31, 2018. The interim financial statements are in compliance with International Accounting Standard 34, *Interim Financial Reporting* ("IAS 34"). Accordingly, certain information and note disclosure normally included in annual financial statements prepared in accordance with IFRS, have been omitted or condensed. During the quarter ended September 30, 2019, there were no significant changes in accounting policies or their application.

The preparation of the Company's interim financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting

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period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements have been set out in Note 2 of the Company's annual audited consolidated financial statements for the year ended December 31, 2018. These interim financial statements should be read in conjunction with the Company's annual audited consolidated financial statements for the year ended December 31, 2018.

These interim financial statements were authorized for issue by the Company's Board of Directors on November 27, 2019.

## **2. Significant Accounting Policies**

These condensed consolidated interim financial statements have been prepared on the basis of accounting policies and methods of computation consistent with those applied in the Company's audited annual consolidated financial statements for the year ended December 31, 2018, with the exception of the following:

### *Adoption of new standards - Leases*

The Company adopted the requirements of IFRS 16 effective January 1, 2019. This new standard replaces IAS 17 Leases and the related interpretative guidance. IFRS 16 applies a control model to the identification of leases, distinguishing between a lease and a service contract on the basis of whether the customer controls the asset being leased. For those assets determined to meet the definition of a lease, IFRS 16 introduces significant changes to the accounting by lessees, introducing a single, on-balance sheet accounting model that is similar to the current accounting for finance leases, with limited exceptions for short-term leases or leases of low value assets.

On adoption, the Company's leases consisted of two office leases. The Company transitioned to the new standard using the modified retrospective approach and:

- Measured the lease liability at \$740,022, based on the present value of the remaining lease payments discounted using the Company's incremental borrowing rate at January 1, 2019;
- Measured the right-of-use asset at \$740,022, as if IFRS 16 had been applied since the commencement date and discounted using the Company's incremental borrowing rate at January 1, 2019

The updated accounting policies, the impact on the September 30, 2019 condensed consolidated interim financial statements, and additional disclosures are detailed as follows:

The Company assesses, at the inception of contract, whether it contains a lease. A contract is classified as a lease if the contract conveys the right to control the use of an identified asset for

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a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company assesses:

- Whether the contract involves the use of an identified asset. This can be specified explicitly or implicitly and should be physically distinct or represents substantially all of the capacity of a physically distinct asset.
- Whether the Company has the right to obtain substantially all of the economic benefits from the use of the asset throughout the period of use; and
- Whether the Company has the right to direct use of the asset. The Company has the right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In cases where the decision about how and for what purpose the asset is used is predetermined, the Company has the right to direct use of the asset if either:
  - The Company has the right to operate the asset; or
  - The Company designed the asset in a way that predetermines how and for what purpose it will be used.

The Company recognizes a right-of-use asset and lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises of the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any indirect costs incurred.

The right-to-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-to-use asset or the end of the lease term. The estimated useful lives of right-to-use assets are determined using the same criteria as those for property, plant and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses and adjusted for certain remeasurements of the lease liability, if any.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be determined, the Company's incremental borrowing rate.

Short-term leases and leases of low-value assets

The Company has elected not to recognize right-of-use assets and lease liabilities for short-term leases that have a term of 12 months or less and leases of low-value assets. The Company recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

### **3. Reverse Acquisition and Amalgamation**

On May 27, 2019, MRI amalgamated with a wholly owned subsidiary of Commerce Acquisition Corp. ("Commerce"). Pursuant to the amalgamation agreement, Commerce

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acquired all of the issued and outstanding common shares in the capital of MRI in consideration for the issuance of 47,809,337 Commerce common shares.

The transaction constituted the Company's Qualifying Transaction, as such term is defined in the CPC Policy. The Qualifying Transaction was completed by way of a three-cornered amalgamation among Commerce, MRI, and a wholly owned subsidiary of Commerce. Subsequent to the transaction, the Company changed its name to Mimi's Rock Corp.

The Qualifying Transaction constituted a reverse take-over ("RTO") for accounting purposes, as former MRI shareholders hold a majority of outstanding shares, the Board of Directors is comprised of MRI Board members and the senior management of MRI became senior management of the Company. Although the Company will be regarded as the legal parent, MRI is considered to be the acquirer for accounting purposes. Consequently, the Company will be deemed to be a continuation of MRI as control of the assets and operations of the Company is deemed to have been acquired through issuance of shares to the former shareholders of MRI. At the time of the RTO, the Company did not constitute a business as defined under IFRS 3 Business Combinations; therefore, the transaction is accounted for under IFRS 2 Share-Based Payment. As a result, the transaction has been accounted for at the fair value of equity instruments issued by the Company to the option holders, warrant holders and shareholders of Commerce holding such equity instruments as of the date of the Qualifying Transaction. The difference between the fair value of equity instruments issued and the net assets acquired has been recognized as a listing expense in the consolidated statements of operations for the period ended September 30, 2019. In addition, legal and professional fees of \$400,651 were incurred to complete the RTO.

The fair value of the acquired identifiable net assets was allocated as follows:

Cash	\$ 740,775
Accounts payable and accrued liabilities	(11,487)
Net assets acquired	729,288
Listing expense	385,487
<b>Total</b>	<b>\$ 1,114,775</b>

Purchase consideration:

Issuance of 1,562,500 common shares	\$ 1,046,875
Issuance of 156,250 options	46,313
Issuance of 125,000 warrants	21,587
<b>Total purchase consideration</b>	<b>\$ 1,114,775</b>

The fair value of shares issued was determined to be \$0.67 per share based on the most recent financing transaction for MRI.

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**4. Short term investments**

In connection with the issuance of the Series B Preferred Shares (Note 13), the Company's lenders required the proceeds to be maintained in a separate account until such time as the Series B Preferred Shares were converted to common shares. At December 31, 2018, the proceeds were held in the form of a Guaranteed Investment Certificate bearing interest at 2.32% and were valued at US\$2,018,359 (\$2,756,299). On May 27, 2018, in connection with its completion of the reverse takeover transaction (Note 3) and concurrent public listing, the funds totaling US\$2,030,363 were released and transferred to the Company's operating account.

**5. Property and equipment**

Continuity of property and equipment as at September 30, 2019 was as follows:

	<b>Computer Equipment</b>	<b>Furniture and Fixtures</b>	<b>Leasehold Improvements</b>	<b>Total</b>
Cost at December 31, 2018	<b>\$ 53,602</b>	<b>\$ 8,689</b>	<b>\$ -</b>	<b>\$ 62,291</b>
Additions	14,666	41,227	198,053	253,946
Foreign exchange differences	(994)	(441)	-	(1,435)
<b>Cost at September 30, 2019</b>	<b>\$ 67,274</b>	<b>\$ 49,475</b>	<b>\$ 198,053</b>	<b>\$ 314,802</b>
Accumulated Depreciation at December 31, 2018	<b>\$ 3,323</b>	<b>\$ 2,112</b>	<b>\$ -</b>	<b>\$ 5,435</b>
Depreciation charge	12,131	12,101	5,726	29,958
Foreign exchange differences	(203)	(259)	-	(462)
<b>Accumulated Depreciation at September 30, 2019</b>	<b>\$ 15,251</b>	<b>\$ 13,954</b>	<b>\$ 5,726</b>	<b>\$ 34,931</b>
Net book value at December 31, 2018	<b>\$ 50,279</b>	<b>\$ 6,577</b>	<b>\$ -</b>	<b>\$ 56,856</b>
<b>Net book value at September 30, 2019</b>	<b>\$ 52,023</b>	<b>\$ 35,521</b>	<b>\$ 192,327</b>	<b>\$ 279,871</b>

**6. Right of use assets**

The Company's right-of-use assets relate to the lease of office space. On adoption of IFRS 16, the Company recognized lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 "Leases". These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's

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incremental borrowing rate as of January 1, 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on January 1, 2019 was 7.4%.

	<b>Office Leases</b>
Balance at January 1, 2019, on adoption of IFRS 16	\$ 744,022
Foreign exchange differences	(11,840)
<b>Cost at September 30, 2019</b>	<b>\$ 732,182</b>
Accumulated Depreciation at January 1, 2019, on adoption of IFRS 16	\$ -
Depreciation charge	54,916
Foreign exchange differences	(1,138)
<b>Accumulated Depreciation at September 30, 2019</b>	<b>\$ 53,778</b>
Net book value at January 1, 2019, on adoption of IFRS 16	\$ 744,022
<b>Net book value at September 30, 2019</b>	<b>\$ 678,404</b>

**7. Intangible assets**

Continuity of intangible assets as at September 30, 2019 was as follows:

	<b>Brand and Trademarks</b>
Balance at December 31, 2018	\$ 11,807,518
Foreign exchange differences	(347,026)
<b>Balance at September 30, 2019</b>	<b>\$ 11,460,492</b>

**8. Goodwill**

The carrying amount of goodwill for the period ended September 30, 2019 was as follows:

	<b>Goodwill</b>
Balance at December 31, 2018	\$ 20,408,899
Foreign exchange differences	(592,648)
<b>Balance at September 30, 2019</b>	<b>\$ 19,816,251</b>



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**9. Provisions**

	September 30, 2019	December 31, 2018
Balance at beginning of period	\$ 34,970	\$ -
Business acquisitions	-	35,041
Charges	26,686	33,662
Utilization	(14,630)	(31,521)
Foreign exchange	(1,181)	(2,212)
<b>Balance at end of period</b>	<b>\$ 45,845</b>	<b>\$ 34,970</b>
Less: current portion of provisions	(45,845)	(34,970)
<b>Non-current portion of provisions</b>	<b>\$ -</b>	<b>\$ -</b>

The Company accepts all product returns relating to North American and certain European product sales. Management estimates the fair value of the product returns liability by taking into consideration the amount of units previously sold, returns experience to date, expiry of product currently in inventory, forecast sales volumes, and changes in the marketplace.

**10. Lease Liability**

Balance at January 1, 2019, on adoption of IFRS 16	\$ 744,022
Interest expense	36,507
Lease payments	(89,499)
Foreign exchange	(10,382)
<b>Balance at September 30, 2019</b>	<b>\$ 680,648</b>
Less: current portion of lease liability	(79,292)
<b>Non-current portion of lease liability</b>	<b>\$ 601,356</b>

On December 11, 2018, the Company entered into a seven year lease agreement with respect to its head office premises in Oakville, Ontario. Pursuant to the agreement, for the first three years under the lease, the Company is obligated to pay basic rent of \$4,564 and operating costs of approximately \$2,319, on a monthly basis. Basic rent for the final four years increases to \$4,762.

On September 27, 2018, the Company's subsidiary, DTI GmbH entered into a 38-month lease agreement for its office in Ahrensburg, Germany, effective October 1, 2018. The Company is obligated for basic rent of EUR 2,096 plus operating costs of EUR 413 per month for the first two months, with basic rent increasing to EUR 2,122 plus operating costs for the next twelve months of the lease, and EUR 2,148 and EUR 2,175 for the second and third twelve-month periods, respectively. The Company has an option to renew for a further five years.

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**11. Long-term debt**

	September 30 2019	December 31 2018
<b>Current</b>		
Secured facility	\$ 2,375,923	\$ 2,286,061
<b>Total</b>	<b>\$ 2,375,923</b>	<b>\$ 2,286,061</b>
<b>Non-Current</b>		
Secured facility	\$ 8,172,134	\$ 9,965,510
<b>Total</b>	<b>\$ 8,172,134</b>	<b>\$ 9,965,510</b>

On July 6, 2018, the Company entered into a new secured debt facility with a commercial lender. The secured facility matures on July 12, 2021 and provides for a \$15,180,000 term loan, currently at the Canadian Bankers' Acceptance ("BA") rate plus 3.0%, or approximately 4.95% effective rate, with principal repayments of \$253,000 per month plus accrued interest.

The facility is secured by all assets of the Company and contains affirmative and negative covenants including compliance with laws and restrictions on additional debt, as well as traditional financial covenants such as debt to earnings and other coverage ratios. The Company was in compliance with all covenants of the senior secured facility during the period and at September 30, 2019.

**12. Share capital**

(a) Authorized:

Unlimited common shares without par value. Unlimited preferred shares.

Issued:

	Nine months ended September 30, 2019		Year ended December 31, 2018	
	Number of shares	Amount	Number of shares	Amount
<b>Balance</b> , beginning of period	15,995,250	\$ 663,502	15,000,000	\$ 2
Common shares issued pursuant to debt financing	-	-	995,250	663,500
Common shares issued in connection with reverse takeover acquisition	1,562,500	1,046,875	-	-

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Conversion of preferred A shares	27,666,797	16,572,551	-	-
Conversion of preferred B shares	4,147,290	2,779,012	-	-
Exercise of stock options	180,000	178,572	-	-
Exercise of warrants	7,500	6,586	-	-
<b>Balance, end of period</b>	<b>49,559,337</b>	<b>\$ 21,247,098</b>	15,995,250	\$ 663,502

Historical share numbers and per share amounts have been restated to reflect 1.5 for 1 share exchange in connection with the reverse takeover acquisition (Note 3).

**(b) Stock option plan**

The Company offers equity-based compensation under its stock option plan. Under the plan, the options are exercisable for one common share and the exercise price of the option must equal the market price of the underlying share at the grant date. The options have vesting periods ranging from the date of grant up to two years. Once vested, options are exercisable at any time until expiry.

During the nine months ended September 30, 2019, the Company granted 167,500 options (2018: nil) to staff and consultants, with an exercise prices ranging from \$1.00 to \$1.25 per share. The options have a terms of one to five years from the date of grant and vest over periods of one to two years.

In addition, the Company issued 156,250 options to former optionholders of Commerce as part of the reverse acquisition. The options are fully vested, expire five years from the date of grant and have an exercise price of \$0.80.

Share based compensation expense is based on the estimated number of awards that will eventually vest and adjustments are made for forfeitures as they occur. The estimated fair value of the options granted during the nine months ended September 30, 2019, using the Black-Scholes option pricing model, was \$50,030 (2018: \$840,232). \$123,747 was expensed in the financial statements in the three month period ending September 30, 2019 (2018: \$326,685) and \$530,919 was expensed during the nine months ended September 30, 2019 (2018: \$326,685) relating to current and prior period grants and has been included in equity as contributed surplus. The remaining expense will be recognized over the balance of the vesting periods.

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(c) Stock option details

The fair value of each option granted was estimated on the date of the grant using the Black-Scholes fair value option pricing model with the following assumptions:

	<b>Nine months ended September 30</b>	
	<b>2019</b>	<b>2018</b>
Weighted-average fair value of options	<b>\$0.23</b>	\$0.33
Risk-free interest rate	<b>1.92%</b>	1.79%
Volatility of the Company's common shares	<b>55%</b>	55%
Weighted average expected life of the options	<b>1.3 years</b>	5 years
Forfeiture rate	<b>2.5%</b>	nil
Expected dividends	<b>nil</b>	nil

Volatility was determined based on daily observations of the historical stock price for comparable companies over a period consistent with the expected life of the options at the date of grant.

Details of outstanding options are as follows:

	<b>Number of options</b>	<b>Weighted average exercise price per share</b>
Options outstanding at December 31, 2018	4,845,000	\$ 0.67
Options granted (Note 3)	323,750	0.98
Options exercised	(180,000)	0.67
Options forfeited	(131,250)	0.67
<b>Options outstanding, September 30, 2019</b>	<b>4,857,500</b>	<b>\$ 0.69</b>
<b>Options exercisable, September 30, 2019</b>	<b>2,906,000</b>	<b>\$ 0.69</b>

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**13. Preferred shares**

Continuity of Preferred Shares at September 30, 2019 was as follows:

	Series A Preferred Shares		Series B Preferred Shares	
	Number of shares	Amount	Number of shares	Amount
Balance at December 31, 2018	17,556,220	\$ 15,819,863	2,633,200	\$ 2,728,800
Adjust transaction costs		164,220		
Foreign exchange	-	-	-	(38,000)
Dividend in kind	878,311	588,468	131,660	88,212
Conversion to common shares	(18,434,531)	(16,572,551)	(2,674,860)	(2,779,012)
<b>Balance, September 30, 2019</b>	<b>-</b>	<b>\$ -</b>	<b>-</b>	<b>\$ -</b>

On July 11, 2018, the Company completed a private placement subscription agreement to issue \$17,566,220 of Series A convertible preferred shares (the "Series A Preferred Shares") to a group of investors. In addition, the company issued \$2,633,200 (US\$2,000,000) of Series B Preferred Shares (the "Series B Preferred Shares").

Terms of the Series A and B Preferred Shares required that they pay an in-kind dividend of 6% per annum, convert automatically into common shares on a 1:1 basis on the occurrence of a "liquidity event," and are subject to adjustment if the liquidity event does not occur within 12 months of issuance. Costs associated with this transaction were approximately \$1,572,137 and were recorded to the Series A Preferred Shares. The Company completed a liquidity event as part of its reverse takeover acquisition in May 2019 (Note 3). Pro rata dividends in the form of additional shares were issued prior to the date of conversion and all Preferred Shares were converted to common in connection with the amalgamation.

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**14. Warrants**

In May 2019, in connection with the reverse acquisition (Note 3), the Company issued 125,000 warrants to former Commerce warrant holders. The warrants expire two years from the date of grant and are exercisable at \$0.80 per share.

Details of outstanding warrants are as follows:

	Number of warrants	Exercise price per share
Warrants outstanding at December 31, 2018	2,732,940	\$ 0.67
Warrants issued (Note 3)	125,000	\$0.80
Warrants exercised	(7,500)	\$0.67
<b>Warrants outstanding, September 30, 2019</b>	<b>2,850,440</b>	<b>\$ 0.68</b>
 <b>Warrants exercisable, September 30, 2019</b>	 <b>2,850,440</b>	 <b>\$ 0.68</b>

**15. Related party transactions**

At September 30, 2019 and 2018, there were no amounts owing to or from related parties, other than the loan receivable as described below. The remuneration of directors and other members of key management personnel recorded in the general and administrative line of operating expenses are as follows:

	<b>Three months ended September 30</b>		<b>Nine months ended September 30</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
Salaries	\$ 459,062	\$ 285,094	\$ 1,332,974	\$ 285,094
Share based compensation	79,392	172,438	337,912	172,438
	<b>\$ 538,454</b>	<b>\$ 457,532</b>	<b>\$ 1,670,886</b>	<b>\$ 457,532</b>

In February 2019, the Company advanced US\$50,000 (\$66,215) as a short term loan to Iconacy Orthopedic Implants Inc., a company controlled by certain of the Company's officers and directors, for the purpose of short term working capital needs. The loan is in the form of an unsecured promissory note bearing interest at 8% and is due November 30, 2019. This amount has been included in trade and other receivables.

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**16. Income taxes**

The major components of income tax expense for the three and nine months ended September 30, 2019 and 2018 are:

	<b>Three months ended September 30</b>		<b>Nine months ended September 30</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
<b>Income tax recognized in statements of operations</b>				
Current tax	\$ 415,418	\$ 528,443	\$ 1,418,910	\$ 528,443
Deferred tax	(12,800)	-	344,612	-
<b>Provision for income taxes</b>	<b>\$ 402,618</b>	<b>\$ 528,443</b>	<b>\$ 1,763,522</b>	<b>\$ 528,443</b>

The Company has recognized an estimated current tax expense and adjustment to deferred taxes based on an approximation of tax liabilities due with respect to its operations in Germany. As a result of the reverse acquisition transaction, certain loss carryforwards will no longer be available for use in future periods and have been derecognized.

Income taxes recoverable represent withholding taxes paid on intercompany dividends and are expected to be recovered in subsequent periods.

**17. Management of capital**

The Company includes the following in its definition of capital:

	<b>September 30 2019</b>	<b>December 31 2018</b>
Debt comprised of:		
Long term debt	\$ 10,548,057	\$ 12,251,571
Preferred shares	-	2,728,800
Equity comprised of:		
Share capital	21,247,098	663,502
Preferred shares	-	15,819,863
Contributed surplus	1,915,581	1,376,860
Deficit and accumulated other comprehensive income	(2,707,306)	(65,481)
	<b>\$ 31,003,430</b>	<b>\$ 32,775,115</b>

The Company's objectives when managing capital are:

- (a) to allow the Company to respond to changes in economic and/or marketplace conditions;
- (b) to give shareholders sustained growth in shareholder value by increasing shareholders' equity;

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- (c) to ensure that the Company maintains the level of capital necessary to meet the requirements of its long-term debt;
- (d) to comply with financial covenants required under its debt facilities; and
- (e) to maintain a flexible capital structure which optimizes the cost of capital at acceptable levels of risk

The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of its underlying assets. The Company maintains or adjusts its capital level to enable it to meet its objectives by:

- (a) raising capital through equity financings;
- (b) utilizing leverage in the form of third party debt; and
- (c) realizing proceeds from the disposition of its investments

The Company is not subject to any capital requirements imposed by a regulator. The Company is subject to certain capital requirements and negative covenants with respect to its long term debt (refer to Note 11). There were no changes in the Company's approach to capital management during the period. To date, the Company has not declared any cash dividends to its common or preferred shareholders as part of its capital management program. The Company's management is responsible for the management of capital and monitors the Company's use of various forms of leverage on a regular basis.

**18. Financial instruments and financial risk management**

a) Fair Value Estimation

The Company's carrying value of cash and cash equivalents, short-term investments, trade and other receivables and accounts payable and accrued liabilities approximate their fair values due to the immediate or short term maturity of these instruments. The fair value of long-term liabilities is not materially different than its carrying value due to the recent issuance of these liabilities.

Carrying value and fair value of financial assets and liabilities are summarized as follows:

Classification	September 30, 2019	
	Carrying value	Fair value
Loans and receivables	\$	\$
- Cash and cash equivalents	1,827,804	1,827,804
- Trade and other receivables	265,450	265,450
- Income taxes recoverable	752,508	752,508
Other financial liabilities		
- Operating line	325,000	325,000
- Accounts payable and accrued liabilities	905,338	905,338
- Lease liability	680,648	680,648
- Long term debt	10,548,057	11,610,646



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b) Financial Risk Factors

The use of financial instruments can expose the Company to several risks, including market, credit and liquidity risks. Apart from the risks listed below, management is of the opinion that they are not exposed to any other significant risks. A discussion of the Company's use of financial instruments and its risk management is provided below.

(i) Liquidity risk

Liquidity risk is the risk that the Company will not have sufficient cash resources to meet its financial obligations as they come due. The Company's liquidity and operating results may be adversely affected if the Company's access to the capital markets is hindered, whether as a result of a downturn in stock market conditions generally or related to matters specific to the Company. In order to mitigate this risk, the Company maintains a sufficient cash balance in order to satisfy short-term liabilities as they come due and actively pursues raising capital through various public and private financing mechanisms to satisfy longer term needs.

The table below analyzes the Company's non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows and do not include capitalized transaction costs.

<b>At September 30, 2019</b>	<b>2019</b>	<b>2020</b>	<b>Year ended December 31 2021</b>	<b>Thereafter</b>
Long term debt	\$ 759,000	\$ 3,036,000	\$ 7,815,646	\$ -
Lease liability	32,150	128,962	125,506	346,795
Accounts payable and accrued liabilities	905,338	-	-	-
Provisions	45,845	-	-	-
<b>Total</b>	<b>\$ 1,742,333</b>	<b>\$ 3,164,962</b>	<b>\$ 7,941,152</b>	<b>\$ 346,795</b>

(ii) Market risk:

Market risk is the risk that the fair value of, or future cash flows from, the Company's financial instruments will significantly fluctuate because of changes in market prices. The value of the financial instruments can be affected by changes in interest rates, foreign exchange rates, and equity and commodity prices. The Company is not exposed to significant market risk given the low value of its investments.

(iii) Currency risk:

The Company is subject to currency risk through its sales of products denominated in foreign currencies, purchases of inventory in US dollars and product acquisitions denominated in foreign currencies. As such, changes in the exchange rate affect the operating results of the Company. Dependent on the nature, amount and timing of

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foreign currency receipts and payments, the Company may from time to time enter into foreign currency derivative contracts to reduce its exposure to foreign currency risks

The following financial assets and liabilities as stated in Canadian dollars were denominated in foreign currencies at September 30, 2019 (U.S. dollar 1.3243, Euro 1.4441) and December 31, 2018 (U.S. dollar 1.3644, Euro 1.5631):

All amounts in CAD	September 30 2019	December 31 2018
Denominated in U.S. dollars		
Cash and cash equivalents	\$ 1,816,405	\$ 2,458,619
Short term investments	-	2,756,299
Trade and other receivables	265,450	617,016
Accounts payable and accrued liabilities	(535,271)	(524,426)
Income taxes payable	(56,175)	(22,751)
Preferred shares	-	(2,728,800)
Net assets denominated in U.S. dollars	<u>\$ 1,490,409</u>	<u>\$ 2,555,957</u>
Denominated in Euros		
Cash and cash equivalents	\$ 76,326	\$ 248,634
Income taxes recoverable	752,508	-
Accounts payable and accrued liabilities	(284,314)	(195,822)
Lease liability	(253,849)	(310,904)
Net assets denominated in Euros	<u>\$ 544,520</u>	<u>\$ (258,092)</u>

The following table shows the estimated sensitivity of the Company's total comprehensive loss for the period ended September 30, 2019 from a change in foreign currencies with all other variables held constant as at September 30, 2019:

Percentage change in foreign currencies	Change in net pre-tax loss from % increase in foreign currencies	Change in net pre-tax loss from % decrease in foreign currencies
2%	\$ 40,699	\$ (40,699)
4%	81,397	(81,397)
6%	122,096	(122,096)
8%	162,794	(162,794)
10%	203,493	(203,493)

(iv) Credit risk:

Certain of the Company's financial assets, including cash and cash equivalents and short-term investments, accounts receivable and loan receivable are exposed to the risk of financial loss occurring as a result of default of a counterparty on its obligations to the Company. The Company is also exposed, in the normal course of business, to credit risk

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from customer receivables. These amounts are continually monitored by management for collectability, and, other than the loan receivable, are lower risk as they are due from large commercial partners with very limited credit risk.

(v) Interest rate risk:

Interest risk is the impact that changes in interest rates could have on the Company's earnings and liabilities. The Company is exposed to variable interest rates as a result of its senior secured debt, which currently bears interest at the Canadian BA rate plus 3.0%. Given the historical variability in the BA rate, it is management's opinion that the Company is not currently exposed to significant interest rate risk.