MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This Management’s Discussion and Analysis (“MD&A”) should be read in conjunction with the consolidated financial statements of Sarment Holding Limited (“Sarment” or “the Company”) for the year ended December 31, 2018 and related notes thereto which have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”). All figures are in United States dollars (“US$” or “USD”) unless otherwise noted. This MD&A has been prepared as of March 27, 2019.

Additional information relevant to the Company’s activities can be found under the Company’s profile at www.sedar.com.

Forward-looking Information

This MD&A contains forward-looking statements that reflect the current beliefs, expectations or assumptions regarding the future of the Company’s business, future plans and strategies, operational results and other future conditions. Forward-looking statements can be identified by words such as “anticipate”, “believe”, “estimate”, “expect”, “intend”, “may”, “plan”, “predict”, “project”, “seek”, “target”, “potential”, “will”, “would”, “could”, “should”, “continue”, “contemplate” and other similar expressions, although not all forward-looking statements contain these identifying words. These forward-looking statements include all matters that are not historical facts. Forward-looking statements are based on the then-current expectations, beliefs, current expectations concerning, among other things, the financial performance, financial condition, liquidity, prospects, growth, strategies and the industry in which the Company operates. Forward-looking statements are not guarantees of future performance and involve risks, uncertainties and assumptions which are difficult to predict. Investors are cautioned that all forward-looking statements involve risks and uncertainties. These risks, as well as others, could cause actual results and events to vary significantly. Additional information about these and other assumptions, risks and uncertainties are set out in the “Risk Factors” section of the IPO Prospectus, a copy of which is available on SEDAR at www.sedar.com. Accordingly, readers should not place undue reliance on forward-looking statements and information, which are qualified in their entirety by this cautionary statement. There can be no assurance that forward-looking information, or the material factors or assumptions used to develop such forward-looking information, will prove to be accurate. The Company does not undertake any obligations to release publicly any revisions for updating any voluntary forward-looking statements, except as required by applicable securities laws.

Overview

Sarment was established in 2012 with a view to becoming the leader in global luxury lifestyle management and the pre-eminent marketplace for the high net worth and ultra-high net worth individuals (collectively, **“HNWIs**”) market segment and began offering personalized luxury products and services to HNWIs in Singapore, Hong Kong and Shanghai.

Sarment has identified wine and spirits-related products and services as an effective gateway to establish brand awareness and positioning in the luxury lifestyle market and believes that HNWI consumers have been embracing wine and spirits as an integral part of a luxury lifestyle. As a starting point, Sarment leveraged its relationships with leading fine wine producers from France, Italy, Australia and the United States as a gateway to the Asian HNWI market, to complement service offerings tailored to the particular needs of Sarment's HNWI clientele. Sarment commenced operations by offering premium wine and spirits to its clients as well as providing related value-add services, such as private sommelier selections, event planning and sourcing of rare items.

Observations made in respect of HNWI consumption habits, along with the identification of scalability issues faced by luxury service providers, helped to shape the evolution and development of Sarment's business and technology, including its digital platform. With the launch of its digital system during the first quarter of 2018, Sarment positioned itself to become a leading technology-enabled luxury lifestyle service provider focused on servicing the world’s HNWIs.

Sarment is recognized for the quality and scope of its services, from traditional concierge services to its access to luxury products, which have all been carefully curated by its team of highly trained ambassadors. Sarment is passionate about life's finer experiences and throughout the life of its business it has developed relationships with some of the world's leading wineries, hotels, restaurants and luxury product providers ("**Partners**"). Sarment's expansion across Asia has strengthened its resolve to also curate and deliver luxury and premium lifestyle services throughout Europe and North America.

Factors Affecting the Company's Performance

The Company believes that its performance and future success depends on a number of factors that present significant opportunities for the Company and may pose risks and challenges.

- *Market Expansion*. Our market expansion strategy has been a key driver of our recent revenue growth and we have identified a number of additional high-potential markets where we plan to continue to execute our expansion strategy. Across all of our markets, we plan to focus on increasing brand awareness, deepening our presence and rolling out our Customer Experience Management Platform ("**CEM**") as market conditions permit. We expect marketing, selling, and technology development expenses supporting these initiatives will continue to increase in proportion to anticipated revenue growth.

- *Development of our Digital Platform*. We have developed a proprietary digital platform to enhance and scale our secure and gated ecosystem to cover more cities and a larger number of HNWI members of Sarment (the "**Users**"). Over the next twelve months we are targeting commencement of operations in a number of new cities. As we continue to increase the percentage of sales through our CEM, we expect to maintain a balanced multi-channel distribution model. As we expand our digital platform, we expect our customer acquisition costs to be significantly reduced on a relative basis.

- *New Products*. Expansion of our relationships with Partners and international enterprises, such as private banks, private members clubs and luxury brands ("**Clients**") will contribute meaningfully to our performance and Sarment intends to continue investing in the development and introduction of new products. As Sarment introduces additional products and enters into new partnerships, the Company expects that they will help expand Sarment's offerings.

Segments

The Company identifies its reporting segments based on geographic units used by management to monitor performance and make operating decisions. The Company has identified three operating segments: (i) China (including Taiwan); (ii) Hong Kong (including Macau); and (iii) Singapore and International.

The key performance indicators measured below are used by management in assessing Sarment's business. The Company refers to certain key performance indicators used by management and typically used by Sarment's competitors, certain of which are not recognized under International Financial Reporting Standards ("IFRS"). See "*Non-IFRS Financial Measures*".

IFRS Measures

- *Revenue*. Revenue is comprised of sales of goods and services.

- *Cost of sales*. Cost of sales consists of goods and other purchases.

- *Operating Expenses*. Operating expenses are comprised of staff costs, stock-based compensation, depreciation and amortization, and other expenses, and includes selling costs to support customer relationships and to deliver Sarment's products to customers. It also includes marketing and brand investment activities, investments in technology platform/infrastructure and the corporate infrastructure required to support the ongoing business. Selling costs generally correlate to revenue timing. The Company expects these selling costs to increase as the business evolves. This increase is expected to be driven primarily by the growth of the distribution network as well as the number of enterprise clients, including the investment required to support additional geographic markets, e-commerce sites and partner networks. General and administrative expenses represent costs incurred for our corporate offices, primarily related to personnel costs, including salaries, variable incentive compensation, benefits and other professional service costs. The Company has invested considerably in this area to support the digital marketplace of Sarment's business and anticipates continuing to do so in the future. In addition, in connection with the initial public offering ("**IPO**") of the Company's shares, the Company has incurred transaction costs and stock compensation expenses and, following the IPO, the Company anticipates a significant increase in accounting, legal and professional fees associated with being a public company.

Non-IFRS Measures

In addition to our results determined in accordance with IFRS, the Company believes the following non-IFRS measures provide useful information both to management and investors in measuring the financial performance and financial condition of the Company. These measures are not recognized under IFRS and do not have a standardized meaning prescribed by IFRS and are therefore unlikely to be comparable to similar measures presented by other companies. Rather, these measures are provided as additional information to complement those IFRS measures by providing further understanding of the financial performance from management's perspective. Accordingly, these measures should not be considered in isolation nor as a substitute for analysis of our financial information reported under IFRS. The Company uses non-IFRS measures to provide investors with supplemental measures of the operating performance and liquidity and thus highlight trends in Sarment's business that may not otherwise be apparent when relying solely on IFRS measures. The Company also believes that securities analysts, investors and other interested parties frequently use non-IFRS measures, including industry metrics, in the evaluation of companies in the industry. Management also uses non-IFRS measures and industry metrics, in order to facilitate operating performance comparisons from period to period, to prepare annual operating budgets and forecasts, and to determine components of executive compensation.

- *Gross Profit*. Gross Profit means revenue less the cost of sales.

- *Gross Margin*. Gross Margin means Gross Profit divided by revenue, measured as a percentage.

- *EBITDA*. EBITDA means net income (loss) before interest expense (net), income tax expense (recovery) and depreciation and amortization.

- *Adjusted EBITDA*. Adjusted EBITDA means EBITDA after adjusting for stock-based compensation expense, transaction costs, adjustments to acquisition related contingent consideration, loss on disposal of assets, impairment of intangible assets, and other non-recurring one-time items.

- *Adjusted Operating Loss*. Adjusted Operating Loss means net loss before discontinued operations after adjusting for interest expense, income tax expense (recovery), stock-based compensation expense, transaction costs, adjustments to acquisition related contingent consideration, loss on disposal of assets, impairment of intangible assets and other non-recurring one-time items.

- *Net Working Capital*. Net Working Capital means the net current assets (liabilities) position as reported in the consolidated financial statements.

The following table sets forth our key performance indicators for the years ended December 31, 2018 and 2017:

In USD '000	**December 31, 2018**	**December 31, 2017**
Revenue	20,581	16,939
Operating loss	(22,037)	(12,529)
EBITDA	(20,890)	(12,198)
Adjusted EBITDA	(16,347)	(12,168)

Basis of Presentation

Sarment Hong Kong was incorporated under the laws of Hong Kong. In the fourth quarter of 2017, the Board of Directors of Sarment Hong Kong resolved that Sarment would move its holding entity from Hong Kong to Singapore. On January 21, 2018, Sarment was incorporated under the laws of Singapore. On March 21, 2018, Sarment carried out a restructuring exercise (the "**Restructuring**"), pursuant to which, inter alia, the shareholders of Sarment Hong Kong, exchanged their shares in the capital of Sarment Hong Kong on a 1:1 basis for shares in the capital of the Company, such that the Company is now the holding company (the "**Share Swap**"). Following completion of the Share Swap, Sarment Hong Kong became a subsidiary of the Company and the shares of Sarment Holding Limited (Singapore) have been split on a 780:1 basis (the "**Share Split**"). The effective date of the Restructuring was March 21, 2018.

The Restructuring also involved the incorporation of legal entities in Singapore and Macau, the partial capitalization of shareholder loans, additional cash capital contributions by existing shareholders in the aggregate amount of US$9.2 million in consideration for the issuance by the Company of 2,961,660 post-Share Split ordinary shares, and the contribution of the shares in Sarment Sàrl (Luxembourg) into the Company by shareholders Bertrand Faure Beaulieu and Vino Ventures Limited (each previously holding 50% of the shares in Sarment Sàrl). Pursuant to the Restructuring, the Company has carried on the business heretofore carried on by Sarment Hong Kong.

Periods presented prior to December 31, 2017 represent the operations of Sarment Hong Kong, on a consolidated basis, and the period presented as of and following January 1, 2018 represents the operations of Sarment, on a consolidated basis and as the successor in interest to Sarment Hong Kong's business and operations.

As a result of the Share Swap, the Company is the sole shareholder of Sarment Hong Kong and its subsidiaries. The transaction is not a business combination and did not result in any change of economic substance. Accordingly, the consolidated financial statements of the Company are a continuation of the existing group. Comparatives presented represent consolidated financial results of the Company which include subsidiaries since the Company's inception in 2012.

For the purpose of performing a comparison to the prior year in the consolidated financial statements for year ended December 31, 2018, the results of Sarment for year ended December 31, 2018 were compared to the results of Sarment Hong Kong for the year ended December 31, 2017.

Going concern

The Company incurred a net loss of US$23,531,000 (2017: US$15,469,000) during the financial year ended December 31, 2018 and as at that date, the Company's current net assets and total shareholders' deficit amounted to US$3,122,000 (2017: net current liabilities of US$4,505) and US$5,999,000 (2017: US$22,806,000) respectively. These factors indicate the existence of a material uncertainty which may cast significant doubt about the Company's ability to continue as a going concern.

Notwithstanding the above, the consolidated financial statements of the Company is prepared on a going concern basis as the Directors are confident that the Company would be able to obtain the funding to enable the Company to meet its obligations as and when they fall due for a period of 12 months from the date of this financial statements via the following:

- Loans from shareholders/ interested parties (See Subsequent Events);
- Secondary investments from third-party wine families into the wine business of the Company; and
- Investment from private investors in the convertible bonds to be issued by the Company.

Should the funding exercise not materialize on time, the Company will have to rely on the continuous support from some of the existing shareholders to support the business as and when financial obligations fall due for a period of 12 months from the date of this financial statements.

If the Company is unable to continue in operational existence for the foreseeable future, the Company may be unable to discharge its liabilities in the normal course of business and adjustments may have to be made to reflect the situation that assets may need to be realized other than in the normal course of business and at amounts which could differ significantly from the amounts at which they are currently recorded in the balance sheet. In addition, the Company may have to reclassify non-current assets and liabilities as current assets and liabilities. No such adjustments have been made to these financial statements.

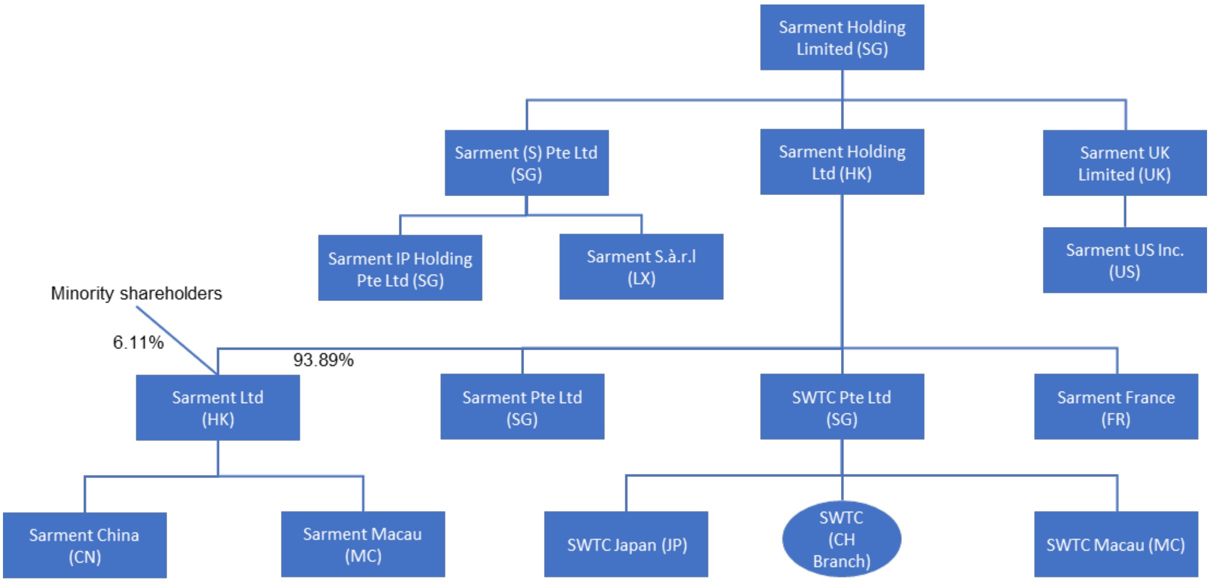
Recent Developments

Initial Public Offering

The Company converted into a public company limited by shares on August 3, 2018. By converting to a public company limited by shares, Sarment no longer has restrictions on a member's right to transfer ordinary shares in the Company and the Company is permitted to have more than 50 members. In accordance with the conversion of the Company to a public company limited by shares, it has changed its name from "Sarment Holding Pte. Ltd." to "Sarment Holding Limited".

On August 21, 2018, the Company completed the IPO of an aggregate of 6,057,553 ordinary shares at a price of C$3.15 per ordinary share and its shares started trading on the TSX Venture Exchange ("**TSXV**") under the symbol SAIS. The gross proceeds of the offering were US$14.6 million. Concurrent with the completion of the IPO, the Chairman of the Company and the CEO received stock-based compensation of US$0.9 million, which was satisfied by the issuance of 363,452 shares.

The following chart illustrates the Company's corporate structure including details of the jurisdiction of formation of each subsidiary.



All shareholding 100% unless otherwise indicated. All shares are ordinary shares, unless otherwise indicated.

Customer Experience Management Platform

In July 2018, the Company launched its new technology centre in San Francisco. The Company has since leveraged from the skills of its new team to expand the capacity of the CEM platform. Improvements on the user experience, payments, logistic and integrations were amongst the technological improvements including the start of work to provide a full fledged standalone platform for the Chinese market, a unique propriety Sentiment Analysis tool and the CEM white label capability and back end.

In the second quarter of 2018, the Company launched its proof of concept of the CEM platform KEYYES, a first-of-its-kind app, giving luxury consumers access to the entire spectrum of lifestyle categories. KEYYES' member base has grown at an exponential rate supported by the launch of programmatic and the SHOP Tier, a membership tier program. The Company generated 3,000+ members in the fourth quarter of 2018 alone, proving that the technology and content combined are a successful mix to attract high level of users into the digital ecosystem. As at December 31, 2018, KEYYES had 3,262 registered members with conversion rates to purchase from 3% to 13% for the top tier of the ecosystem, which is above our expectation and market averages. Following the launch of KEYYES in Singapore, the Company consequently opened 4 other locations in Hongkong, Tokyo, Bali and Bangkok in the fourth quarter of 2018 for users of KEYYES to access bookings and related content.

On October 25, 2018, the Company announced that it entered into an agreement with Julien Royer, a world renowned chef, in a collaboration with its digital platform KEYYES. Julien Royer, a two-starred Michelin chef and owner of one of the world's top fine dining restaurants, Odette (in Singapore), is now working together with the KEYYES' Gourmet marketplace to offer its community a chance to purchase the exact ingredients that he uses in his restaurant's kitchen. KEYYES also unveiled the Gourmet category of its marketplace in 2018 with Chef Julien Royer as one of its major brand ambassadors to assist in curating its products.

In November 2018, the Company signed a partnership agreement with BlackBerry to leverage BlackBerry's technology to reinforce the security in the communication tools of the Customer Experience Management system. This agreement will allow the Company to elevate its data protection to enterprise-grade level protecting customers and companies' data in transit and at rest.

As the CEM Platform has been designed to easily allow for white-label deployment, throughout the development of KEYYES, the Company has generated a lot of traction with patterned companies and companies outside the partner circle for a white label solution. With our flexible content management system and permissions module, the system can be adapted at runtime to suit the needs of these businesses without the need for additional development. As such, proposals have been made to over a dozen companies in the fourth quarter of 2018 which are set to materialise in the course of 2019.

During the year ended December 31, 2018, the Company has activated its 667th partner in its digital luxury ecosystem for HNWIs. As at March 27, 2019, of the 1,500 brands and vendors that are part of Sarment's ecosystem, 450 are now connected online. These include Burberry, Ferragamo, Harlan Estate, Boucheron, Ferrari, Lamborghini and Pierre Gagnaire.

Fourth Quarter Highlight

	Three months ended December 31			
	2018	**2017**	**Variance**	
	US$'000	US$'000	US$'000	%
Revenue	4,585	5,067	(482)	(10%)
Cost of sales	(3,049)	(3,632)	583	(16%)
Gross profit	1,536	1,435	101	7%
Operating loss	(4,445)	(4,499)	54	(1%)
Net loss	(4,246)	(4,880)	634	(13%)
Loss attributable to owners of the Company	(4,198)	(4,848)	650	(13%)

The sales in China have continued to be solid with a strong fourth quarter in 2018 at 6% above the corresponding period in 2017. Despite the international tensions of the last months of the year, the growth in China is maintained and continues to outperform our forecasts.

Sales in Singapore were consistent with the corresponding period in 2017 but the yearly results were well over 2017 with an increase of 35.8%. Singapore continuously attracts high end consumers and growth follows the city development in becoming Asia's centre of luxury.

Our segment in Hong Kong went through a challenging year essentially due to the limitation of the market on the current business model, which led to the overall decrease in sales of US$0.6 million or 23.3% compared with the fourth quarter in 2017. The digital transformation has started at the very end of fourth quarter 2018 and the benefits of the digital transformation should be materialized in the course of 2019. Along with new management in place, the transformative actions taken have sustained part of the traditional model and have set the grounds for renewed growth.

Despite the decrease in revenue of US$0.5 million in the fourth quarter of 2018 compared to the corresponding period in 2017, Sarment's gross profit increased from US$1.4 million in the fourth quarter of 2017 to US$1.5 million in the corresponding period in 2018. The improvement of the Company's gross profit was mainly due to the increase in sales in China, which has a higher gross margin compared to the other business units.

The Company's operating loss for the three months ended December 31, 2018 was US$4.4 million, which is consistent with the operating loss for the comparative period. The Company reduced its staff costs by US$0.3 million, marketing expense by US$0.3 million, and technology and logistics expenses by US$0.5 million. The costs reductions were offset by the increase in IPO cost of US$0.5 million and an increase in foreign exchange loss of US$0.6 million compared to the fourth quarter in 2017.

The Company's net loss in the fourth quarter of 2018 was reduced by US$0.6 million mainly due to other income related to the change in embedded derivative, which is a non-cash item.

Selected Annual Consolidated Information

Certain of the following financial information of Sarment has been derived from, and should be read in conjunction with, the audited consolidated financial statements for the years ended December 31, 2018 and 2017, and the related notes.

	For the years ended December 31		
	2018 US$'000	**2017** US$'000	**2016** US$'000
Total revenue	20,581	16,936	10,139
Gross profit	6,419	4,950	3,210
Loss from continuing operations	(23,531)	(15,469)	(11,974)
Loss attributable to owners of the Company	(23,356)	(15,335)	(11,680)
Loss per share attributable to owners of the Company– basic and diluted	(0.95)	(1.10)	(0.91)
Cash and bank balance	1,327	1,349	1,434
Total assets	13,071	15,341	14,709
Non-current liabilities	10,241	18,132	15,920
Dividends declared	-	-	-

Discussion of Operations

The following table summarizes our results of operations per segment for the years ended December 31, 2018 and 2017:

	China		Hong Kong		Singapore and International		Elimination and Adjustments			Total	
	2018	2017	2018	2017	2018	2017	2018	2017		2018	2017
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	Note	US$'000	US$'000
Revenue:											
External customers	8,586	6,427	6,240	6,273	5,755	4,239	–	–		20,581	16,939
Inter-segment	–	–	3,966	3,504	408	677	(4,374)	(4,181)	A	–	–
Total revenue	8,586	6,427	10,206	9,777	6,163	4,916	(4,374)	(4,181)		20,581	16,939
Depreciation and amortization	(29)	(48)	(108)	(95)	(143)	(148)	–	–		(280)	(291)
Other non-cash items	(577)	260	(541)	116	(672)	979	–	–		(1,790)	1,355
Segment loss	(2,117)	(2,058)	(3,555)	(4,744)	(17,859)	(8,667)	–	–		(23,531)	(15,469)
Addition to non-current asset	–	25	2	–	73	97	–	–		75	122
Non-current assets	23	53	4,620	42	35,187	456	(38,710)	–	B	1,120	551
Total assets	6,446	6,771	36,864	73,649	74,686	9,234	(104,925)	(74,313)	C	13,071	15,341
Total liabilities	(15,715)	(14,409)	(14,922)	(68,303)	(54,656)	(24,662)	66,223	69,947	D	(19,070)	(37,427)

Note: Nature of adjustments and eliminations to arrive at amounts reported in the consolidated financial statements

A Inter-segment revenues are eliminated on consolidation.

B Trademark recorded at the consolidation level.

C Inter-segment assets are deducted from segment assets to arrive at total assets reported in the consolidated statement of financial position.

D Inter-segment liabilities are deducted from segment liabilities to arrive at total liabilities reported in the consolidated statement of financial position.

The following table reconciles EBITDA, Adjusted EBITDA and Adjusted Operating Loss for the years ended December 31, 2018 and 2017.

In USD'000	**2018**	**2017**
Net Loss	(23,531)	(15,469)
Add the impact of:		
Income tax expense (recovery)	-	-
Interest expense	2,361	2,980
Amortization and depreciation.................	280	291
EBITDA	(20,890)	(12,198)
Add the impact of:		
Stock-based compensation	1,007	-
IPO expenses	3,486	-
Impairment loss for property, plant and equipment	-	21
Loss on disposal of property, plant and equipment	50	9
Adjusted EBITDA	(16,347)	(12,168)
Less: Amortization and depreciation	(280)	(291)
Adjusted Operating Loss	(16,627)	(12,459)

Year Ended December 31, 2018 Compared to Year Ended December 31, 2017

Total Revenue. Total revenue was US$20.6 million and US$16.9 million for the years ended December 31, 2018 and 2017, respectively, representing an increase of US$3.7 million or 21.5% from the prior period. The increase in revenue was comprised of a positive currency impact of 1.4%, due to currency fluctuations between the Chinese Yuan Renminbi and the United States Dollar of 2.2% and currency fluctuations between the Singapore Dollar and the United States Dollar of 2.5%, which was partially offset by a decrease of 0.6% due to currency fluctuations between the Hong Kong Dollar and the United States Dollar. In addition, the increase in revenue is also due to volume growth in all segments of 32.0% and a positive product-customer mix of 15.1%, offset by a decrease in a price mix of 11.0%, in all cases from the prior period. The decrease in price mix was primarily due to an increase in the sale of soda water related to spirits which, on average, lowered the average unit price of general wine and spirits. This increase in revenue took into account a one-off slow-down of the Chinese economy from March 5, 2018 to March 20, 2018 due to a country lock-down for the general assembly of the Chinese Communist Party.

The revenue of the China business unit grew by 33.6% from the year ended December 31, 2017 to the year ended December 31, 2018. The Singapore and international business unit achieved revenue growth of 35.8% from the year ended December 31, 2017 to the year ended December 31, 2018 while the revenue from Hong Kong business unit decrease 0.5% compared to last year. For the year ended December 31, 2018, the China business unit represented 41.7% (2017: 37.9%) of Sarment's total revenue, the Hong Kong business units represented 30.3% (2017: 37.0%), of Sarment's total revenue, while Singapore & International represented 28.0% (2017: 25.0%) of Sarment's total revenue for the period.

References herein to product-customer mix refer to the combined effect on revenue from differential pricing of different products from the same brand and differential pricing for different customer channels. Revenues may vary depending on the purchaser of a certain product or the type of product sold. For example, a Champagne brand Brut Rose will be priced differently than a Brut Reserve and the price will also depend on whether it is sold to a private client, corporate client or professional client. The Company does not report on the effect separately but combined as product-customer mix.

References herein to segment mix refer to the effect that sales in certain geographic segments may be more or less profitable than other geographic segments as a result of the Company's ability to achieve higher or lower gross margins in different segments varies.

References herein to price mix are referring to pricing changes driven by macro-economic trends such as general inflation or local currency weakness. These changes are initiated by the Company and may affect all products and customers or may be limited to certain customer groups.

Beginning February 2018, our digital marketplace (CEM system) has been live and able to process registered members' purchases. For the year ended December 31, 2018, sales to members through the CEM are growing rapidly but are yet to be material to total revenue for the period. As of December 31, 2018, there were 3,262 registered members. This represented a growth of 221% or 2,245 registered members when compared to September 30, 2018. For the year ended December 31, 2018, digital marketplace sales on our KEYYES platform was approximately US$176,000. Average revenue per active user (defined as a customer who makes at least one purchase through our digital marketplace per month) showed significant growth from US$763 in the third quarter of 2018 to US$858 in the fourth quarter of 2018.

Gross Margin. Gross margin was 31.2% for the year ended December 31, 2018 (2017: 29.2%). The increase in gross margin is attributable to the increase of revenue from China and Singapore business units which generate higher gross margin relative to the Hong Kong business unit.

Operating expenses. Operating expenses increased by 62.8% or US$11.0 million, from US$17.5 million in the year ended December 31, 2017 to US$28.5 million in the year ended December 31, 2018. The increase in operating expenses was mainly attributable to the following items:

	For the years ended December 31			
	2018	**2017**	**Variance**	
	US$'000	US$'000	US$'000	%
Staff costs	12,975	9,798	3,177	32.4%
Stock-based compensation	1,007	-	1,007	N/A
Professional fees	1,190	641	549	85.6%
IPO expenses	3,486	-	3,486	N/A
Rental of premises	1,459	1,199	260	21.7%
Foreign exchange loss (gain)	1,790	(1,350)	3,140	(232.6%)
Technology and logistic expenses	1,703	2,367	(664)	(28.1%)
Marketing expense	710	1,332	(622)	(46.7%)

The number of full-time employees increased significantly in 2018 because the Company hired additional staff in the CEM division, which contributed to the increase in staff costs for the year ended December 31, 2018 as compared to 2017. The expansion in the CEM division has also contributed to a decrease in technology and logistic expenses in 2018 since the development of Sarment's digital marketplace was performed by Sarment's employees as compared to outsourced to third parties in 2017**.**

Stock-based compensation of US$0.9 million represented a one-time share grant to the Chairman of the Company and the CEO in connection with the successful completion of the IPO. The remaining US$0.1 million represented the restricted stock units granted Sarment's employee and management during the year ended December 31, 2018.

The significant increase in professional fees from US$0.6 million in 2017 to US$1.2 million in 2018 was consistent with the change of the Company from a private to a public company, of which the Company is required to be compliant with legal, accounting and other regulatory requirements in both Singapore and Canada. Most of the professional fees were related to advice on legal and tax restructuring, corporate secretarial services, financial audit, trademark activities, and development of data and other policies in connection with KEYYES.

The IPO expense of US$3.5 million in 2018 was related to professional fees and other expenses that incurred because of the IPO but not directly related to the issuance of new shares in the IPO. The direct costs associated with the IPO has been capitalized as share issuance costs in share capital of the Company's consolidated statement of financial position.

Rental of premises increased by US$0.3 million in 2018 compared to 2017 because of the expansion of the Company's business and additional employee hired in 2018.

Foreign exchange loss of US$1.8 million for the year ended December 31, 2018 (2017: foreign exchange gain of US$1.4 million) of which US$0.7 million, US$0.5 million and US$0.6 million of the exchange loss was attributed to the Singapore business unit, China and Hong Kong business unit, respectively.

The Company has reduced technology and logistic expenses and marketing expenses in 2018 by US$0.7 million and US$0.6 million, respectively, as the development of Sarment's digital marketplace and marketing functions were largely performed by Sarment employees as opposed to outsourced to third parties in 2017.

Total Assets. Total assets decreased by US$2.2 million, from US$15.3 million as at December 31, 2017 to US$13.1 million as at December 31, 2018. The decrease in total assets is primarily attributable to a decrease in inventories of US$2.1 million, prepayments of US$0.5 million and trade and other receivables of US$0.2 million, partially offset by an increase in intangible assets of US$0.8 million as a result of the acquisition of trademarks as part of the Restructuring on March 21, 2018.

Total Non-Current Liabilities. Total non-current liabilities decreased by US$7.9 million, from US$18.1 million as at December 31, 2017 to US$10.2 million as at December 31, 2018. The decrease was primarily due to the conversion of shareholder loans in the amount of US$10.4 million to equity as part of the Restructuring on March 21, 2018, partially offset by the shareholder loans' imputed interest of US$1.5 million and an increase in convertible loans of US$1.0 million.

SUMMARY OF QUARTERLY RESULTS

The following financial information for the Company has been derived from the Company's financial statements for the Company's most recent 8 quarters.

Quarterly Results *(All amounts in 000s of US Dollars, except Loss per share figures)*	**4th Quarter December 31**	**3rd Quarter September 30**	**2nd Quarter June 30**	**1st Quarter March 31**
Calendar 2018				
Revenue	4,585	5,358	5,902	4,736
Loss attributable to owners of the Company	(4,198)	(7,636)	(6,483)	(5,038)
Loss per share attributable to owners of the Company (Basic & Diluted)	(0.13)	(0.28)	(0.27)	(0.33)
Calendar 2017				
Revenue	5,067	4,846	3,633	3,393
Loss attributable to owners of the Company	(4,849)	(3,805)	(3,740)	(2,941)
Loss per share attributable to owners of the Company (Basic & Diluted)	(0.35)	(0.27)	(0.27)	(0.21)

The Company has strong growth in sales in the first, second and third quarter in 2018 compared to the corresponding period in 2017.

The decrease in sales in the fourth quarter in 2018 is due to the decrease in sales in Hong Kong. Please refer to "Fourth Quarter Highlight" for details.

The overall increase in the Company's loss attributable to owners of the Company of each quarter in 2018 compared with 2017 is due to the increase of staff costs and stock-based compensation for the expansion of the Company's business and increase in professional fee as public reporting issuer.

Liquidity and Capital Resources

General

The capital of the Company consists of items included in shareholders' equity and convertible debentures. Historically, the Company's primary sources of liquidity and capital resources were shareholder loans and advances. The Company's primary objectives of capital management are to safeguard the Company's ability to continue as a going concern and to support the Company's growth and general corporate needs, including development of our technical infrastructure, intellectual property, patents and trademarks. Throughout 2017 and 2018, the Company incurred additional expenses related to the development of our CEM. Additional future liquidity needs will include funding ongoing operating expenses the Company expects to incur to finance growth, including launching new cities on our CEM.

The Company's cash and bank balances at December 31, 2018 was US$1.3 million, which is approximately the same as the balance at December 31, 2017. As at December 31, 2018, the Company had not yet achieved profitable operations and had accumulated losses of US$71.9 million since inception. The Company's working capital as at December 31, 2018 was US$3.1 million (2017: working capital deficiency of US$4.5 million).

In the event that the Company's business does not generate sufficient cash flows from operating activities, the Company will need to raise sufficient capital through equity or debt financing to further develop its business and to repay or refinance its debt obligations. The timing and ability to do so will depend on, among others, the continuing support from shareholders, in addition to the successful implementation of the Company's business objectives. Although the Company has been successful in the past in obtaining financing and restructuring its debt, there is no assurance that it will be able to obtain adequate financing or refinance its debt in the future. As the Company is now a public company, it will also allow the Company to seek financing from other channels previously not available. The Company's ability to continue as a going concern is dependent upon its ability to obtain the necessary financing to meet its ongoing corporate overhead expenditures, discharge its liabilities as they come due and advance the development of its business objectives.

There can be no assurance that the business will generate sufficient cash flows from operations or that future borrowings will be available upon reasonable terms or otherwise available to the Company to service indebtedness, or to make capital expenditures in the future. The future operating performance and the ability to service or extend the Company's indebtedness, will be subject to future economic conditions and to financial, business and other factors, many of which are beyond the Company's control.

Cash Flows

Comparative Cash Flow

Cash flows used in operating activities. Net cash used in operating activities increased from US$9.4 million in the year ended December 31, 2017 to US$17.9 million in the year ended December 31, 2018, an increase of US$8.5 million. This increase was mainly due to increase in net loss of US$8.1 million from 2017 to 2018.

Cash flows from (used) in investing activities. Net cash from investing activities during the year ended December 31, 2018 was US$18,000 (2017: used in investing activities of US$111,000), which is primarily related to the proceed from disposal of office equipment of US$91,000 and purchase of equipment of US$75,000.

Cash flows from financing activities. Net cash from financing activities increased from US$9.7 million in the year ended December 31, 2017 to US$18.0 million in the year ended December 31, 2018. Net cash generated from financing activities in the year ended December 31, 2018 was derived from the net IPO proceeds of US$13.0 million, proceeds from the issuance of shares of US$2.0 million from the Restructuring, issuance of convertible loans of US$6.0 million, and reduced by the repayment of Galia loan of US$3.0 million.

Shareholder Loans

In 2017, Sarment Hong Kong's Board of Directors decided to restructure the majority of the outstanding shareholder loans by way of converting a portion of such shareholder loans to equity. The aggregate amount outstanding under the shareholder loans before the Restructuring was US$27.4 million and post-Restructuring the aggregate amount decreased by US$15.5 million to US$11.9 million. As at December 31, 2018, the net present value of the shareholder loans of US$9.1 million (after imputed interest of US$2.8 million) was included in non-current Loans and Borrowings in the consolidated statements of financial position.

The following table shows the outstanding principal amount of the shareholder loans both prior to, and after the completion of the Restructuring.

Shareholder	Loan pre-Restructuring	Loan post-Restructuring	Interest rate	Due Date
Interest-free loans	US$19,750,000	US$4,250,000	-	31 January 2021
Interest-bearing loans	U$7,623,000	US$7,623,000	3% p.a.	31 January 2021
Total:	US$27,373,000	US$11,873,000		

Third Party Loans

During 2016 and 2017, Galia Holdings Inc. ("**Galia**"), of which a former director of Sarment Hong Kong, is the ultimate beneficiary, advanced loans in favour of Sarment Hong Kong in the aggregate principal amount of US$3 million (the "**Galia Loan**"), which was due on December 31, 2017. Per a deed of amendment dated January 1, 2018, the principal amount of the Galia Loan together with all interest thereon, being approximately US$0.55 million, was refinanced and converted to a new bridging loan, which Galia Loan bears interest at a rate of 90 days LIBOR + 7.5% per annum. During the period from January 1 to May 31, 2018, the Galia Loan bore interest of LIBOR (90 days) + 7.5% per annum. During the period from June 1 to August 24, 2018, the Galia Loan bore interest of LIBOR (90 days) + 9.5% per annum. The Company repaid this loan and outstanding interest on August 27, 2018.

On March 12, 2018 the Company entered into a non-interest bearing convertible loan agreement pursuant to which the lender agreed to provide to the Company a convertible loan in the aggregate amount of US$2 million. Pursuant to the terms of this agreement, the aggregate outstanding principal amounts under this loan was to be automatically converted into that number of ordinary shares (as adjusted to account for the Share Split) determined by dividing the outstanding principal amount of the loan by US$2,423.10 on the earlier of (a) the date falling one day after the listing of the Company's ordinary shares on a Canadian stock exchange; or (b) March 12, 2019. Concurrent with the closing of the IPO, the loan was converted to 643,803 shares of the Company.

On April 16, 2018 the Company entered into a facility letter with a bank for a three (3) month bridging loan in an amount equal to US$1 million. On April 26, 2018, a First Deed of Debenture was executed in favour of the bank granting the bank a floating charge over the Company's wine and spirits inventory in Singapore, which is required to have a cost price of at least US$1.5 million at all times. The loan bears interest of 1-month LIBOR + 5% per annum or 5% over the bank's 1-month Cost of Funds, whichever is higher. On July 26, 2018, the bank agreed to extend the maturity date of the loan to August 27, 2018. The Company repaid this loan on August 24, 2018.

Convertible Loans

On May 25, 2018, the Company entered into non-interest bearing convertible loan agreements with certain of its shareholders, totalling US$2 million. These loans will mature on May 24, 2019 and the aggregate outstanding principal amounts under each convertible loan was, on August 22, 2018, automatically converted into that number of ordinary shares determined by dividing the outstanding principal amount of the convertible loan by an amount equal to the offering price in USD using the applicable exchange rate on the date the ordinary shares were listed (C$3.15). Concurrent with the closing of the IPO, these convertible loans were converted into 829,532 shares of the Company.

On June 28, 2018, the Company entered into non-interest bearing convertible loan agreements with certain of its shareholders, totalling US$2 million. Pursuant to the terms of the convertible loan agreements, the loans are to mature on February 21, 2020 (being the date falling 18 months after the IPO of the ordinary shares of the Company on August 21, 2018 or June 30, 2020, whichever is earlier). At the option of the lender, the convertible loan may be repaid in cash on the maturity date or the lender may convert the aggregate outstanding principal amounts under each convertible loan into that number of ordinary shares determined by dividing the outstanding principal amount of the convertible loan by an amount equal to the offering price in USD using the applicable exchange rate on the date the ordinary shares are listed.

Commitments

The Company has entered into leases of office premise and warehouses. These leases have an average tenure of between one to three years with no renewal options or contingent rent provisions included in the contracts.

Future minimum rental payable under non-cancellable operating leases at December 31, 2018 are as follows:

Operating leases	**US$'000**
Less than one year	287
Later than one year but not later than five years	239
Total	526

Outstanding Share Data

As at March 27, 2019, there were 31,794,320 common shares of the Company issued and outstanding and 206,877 restricted shares units outstanding.

Off-Balance Sheet Arrangements

The Company does not have any off-balance sheet arrangements.

Related Party Transactions

In addition to related party transactions disclosed elsewhere in this MD&A, the following significant transactions between the Company and related parties took place at terms agreed to between the parties during the period as follows:

(a) Sale and purchase of goods and services

	2018	2017
	US$'000	US$'000
Sale of finished goods to:		
- Key management personnel	35	3
- Former director	64	–
- Directors	15	135
- Shareholders		76
Finance costs to:		
- Directors, including a former director and his controlled entity	1,702	2,980
Stock-based compensation:		
- Directors	879	–

(b) Compensation of key management personnel

	2018	2017
	US$'000	US$'000
Short-term employee benefits	1,372	915
Directors fee	90	–
Other short-term benefits	249	181
Stock-based compensation	879	–
	2,590	1,096

Critical Accounting Policies and Estimates

Changes in accounting policies

The Company has adopted the new standards commencing January 1, 2018.

(a) IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments that replaces IAS 39 Financial Instruments: recognition and measurement and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

Classification and measurement

The adoption of IFRS 9 has no change in the measurement categories below:

	IAS 39 and IFRS 9
Cash and bank balances	Amortized cost
Trade and other receivables (excluding taxes receivable)	Amortized cost
Trade and other payables (excluding taxes payable)	Amortized cost
Embedded derivatives	Fair value through profit or loss
Loans and borrowings	Amortized cost
Other liabilities	Amortized cost

Impairment

The adoption of IFRS 9 has changed the Company's accounting for impairment losses for financial assets by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. IFRS 9 requires the Company to record an allowance for ECLs for all loans and other debt financial assets not held at FVPL.

ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive. The shortfall is then discounted at an approximation to the asset's original effective interest rate.

For trade and other receivables, the Company has applied the standard's simplified approach and has calculated ECLs based on lifetime expected credit losses. The Company has established a provision matrix that is based on the Company's historical observed default rates with necessary adjustments for forward-looking factors specific to the debtors and the economic environment.

The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Company's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future.

The Company considers a financial asset in default when contractual payments are 270 days past due. However, in certain cases, the Company may also consider a financial asset to be in default when internal or external information indicates that the Company is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Company.

The Company has applied IFRS 9 on a modified retrospective approach, with the initial application date of 1 January 2018. The adoption of the ECL requirements of IFRS 9 did not result in any change on the carrying amounts of the Company's financial instruments at the transition date.

(b) IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a five-step model to account for revenue arising from contracts with customers, and introduces new contract cost guidance. Under IFRS 15, revenue is recognized at an amount that reflects the consideration which an entity expects to be entitled in exchange for transferring goods or services to a customer. The new revenue standard is effective for annual periods beginning on or after January 1, 2018. The Company elected to adopt IFRS 15 using the modified retrospective method.

Sale of goods

The Company's contracts with customers for the sale of goods generally include a single performance obligation. The Company has concluded that revenue from sale of inventory should be recognized at the point in time when control of the asset is transferred to the customer, generally on delivery of goods. Therefore, the adoption of IFRS 15 did not have an impact on the timing of revenue recognition. However, the amount of revenue to be recognized was affected by volume rebates granted to certain customers.

Variable consideration

The Company provides retrospective volume rebates to its customers on all products purchased by the customer once the quantity of products purchased during the period exceeds a threshold specified in the contract. Rebates are offset against amounts payable by the customer on subsequent purchases. Prior to adoption of IFRS 15, the Company estimated the expected volume rebates using the probability-weighted average amount of rebates approach and included a provision for rebates offset against trade and other receivables.

Under IFRS 15, retrospective volume rebates give rise to variable consideration. To estimate the variable consideration to which it will be entitled, the Company applied the 'most likely amount method' for contracts with a single volume threshold and the 'expected value method' for contracts with more than one volume threshold. The selected method that best predicts the amount of variable consideration was primarily driven by the number of volume thresholds contained in the contract. The Company then applies the requirements on constraining estimates of variable consideration. Upon adoption of IFRS 15, the Company assessed the quantum of expected future rebates and concluded the impact from such variable consideration is not material as of January 1, 2018. Hence no cumulative catch-up adjustment to the opening balance of retained earnings as at January 1, 2018 was recorded.

Storage services

The Company is in the business of sale of wine. Some of the contracts with customers for the sale of wine may be bundled with storage services. Under IFRS 15, storage service is considered a separate performance obligation and hence, the transaction price should be allocated between sale of wine and storage services on a relative stand-alone selling price basis and recognized separately. Upon adoption of IFRS 15, the Company assessed the quantum of transaction price to be allocated to storage services and concluded the impact from such separate performance obligation is not material as of January 1, 2018. Hence no cumulative catch-up adjustment to the opening balance of retained earnings as at January 1, 2018 was recorded.

Rights of return

Under IFRS 15, the Company estimated the amount of expected returns in determining the transaction price. The Company assessed the quantum of expected future returns and concluded the no impact as of January 1, 2018. Hence no cumulative catch-up adjustment to the opening balance of retained earnings as at January 1, 2018 was recorded.

Standards Issued But Not Yet Effective

IFRS 16 was issued in January 2016 and it replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

The Company will apply IFRS 16 on its effective date of January 1, 2019 retrospectively, with the cumulative effect of initially applying the standard as an adjustment to retained earnings and no restatement of comparative information. The Company has elected to measure its right of use assets at amounts equal to the associated lease liabilities; as such, the adjustment to retained earnings will be nil. Upon adoption, the Company has elected to apply the available exemptions as permitted by IFRS 16 to recognize a lease expense on a straight-line basis for short term leases and low value assets. The Company has also elected to apply the practical expedient whereby leases whose term ends within 12 months of the date of initial application would be accounted for in the same way as short-term leases.

Upon the adoption of IFRS 16, the Company expects to recognize additional right of use assets and lease liabilities related to the Company's office rentals. Based on the Company's assessment of the expected impact of IFRS 16, the Company expects that the adoption of the new standard will result in the recognition of additional right of use assets and lease liabilities of approximately US$758 to $926. The Company does not expect there will be a material impact to the consolidated statement of profit or loss or the consolidated statement of cash flows.

Judgments Made In Applying Accounting Policies

In the process of applying the Company's accounting policies, management has made the following judgments which have the most significant effect on the amounts recognized in the consolidated financial statements:

Revenue recognition on consignment arrangements

Management assesses the revenue recognition of consignment arrangements based on the primary indicators of whether Sarment acts as a principal or agent. The primary indicators are driven by risk and rewards as well as ownership and obligations governing the arrangement. Management uses its judgment to determine whether Sarment acts as a principal to the consignment arrangement. In acting as a principal and primary obligor on the consignment arrangements, Sarment has discretion as to the supplier and product type selection and retail prices of the consignment goods, and bears credit risk for the sale of goods to the end customer.

Determination of functional currency

Sarment measures foreign currency transactions in the respective functional currencies of the Company and its subsidiaries. In determining the functional currencies of the entities in Sarment, judgment is required to determine the currency that mainly influences sales prices for products and services and of the country whose competitive forces and regulations mainly determines the sales prices of its products and services. The functional currencies of the entities in Sarment are determined based on management's assessment of the economic environment in which the entities operate and the entities' process of determining sales prices. Management has assessed that prices are mainly denominated and settled in the respective local currency of the entities owned by Sarment. In addition, most of the entities' costs are mainly incurred in their respective local currency. Therefore, management concluded that the functional currency of the entities of Sarment is their respective local currency.

Key Sources Of Estimation Uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period are discussed below. The Company based its assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Company. Such changes are reflected in the assumptions when they occur.

Impairment of loans and receivables

The Company applied a simplified approach in calculating ECLs. Therefore, the Company does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime ECLs at each reporting date. The amount of impairment is calculated using a provision matrix based on the Company's historical credit loss experience for assets with similar credit risk characteristics, adjusted for forward-looking factors specific to the debtors and the economic environment if necessary.

Deferred tax assets

Accounting standards require that deferred tax assets can only be recognized for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized.

Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the timing and level of future taxable profits together with future tax planning strategies.

In determining the timing and level of future taxable profits together with future tax planning strategies, the Company has considered the probability of expected future cash inflows and overall business strategy. Due to lack of historical utilization trends and uncertainty surrounding future taxable profits, no deferred tax assets are recognized on the unused tax losses for all years.

Inventory obsolescence

Management reviews are made periodically by management on inventories for damaged inventories, obsolescence and decline in net realisable value below cost and records an impairment allowance or written off against the inventories for any such declines. These reviews require the use of judgments and estimates. Possible changes in the estimates could result in revisions to the valuation of inventories.

There was no provision made during the periods presented for obsolete and slow-moving inventories as management has assessed future economic deterioration of those inventories on hand as remote.

Provision for sales return

Management reviewed potential future customer returns using actual historical rates of customer returns. Sarment is of the view that, based on past experience, the actual return rate is insignificant and therefore no provision for sales returns were made.

Quantitative and Qualitative Disclosures about Market Risk

The Company is exposed to financial risks arising from its operations and the use of financial instruments. The key financial risks include credit risk, liquidity risk and foreign currency risk. The board of directors reviews and agrees on policies and procedures for the management of these risks, which are executed by the Chief Financial Officer.

The following sections provide details regarding the Company's exposure to the above-mentioned financial risks and the objectives, policies and processes for the management of these risks.

Credit risk

Credit risk is the risk of loss that may arise on outstanding financial instruments should a counterparty default on its obligations. The Company's exposure to credit risk arises primarily from trade and other receivables. For cash and short-term deposits, the Company minimise credit risk by dealing exclusively with credit worthy counterparties.

The Company's objective is to seek continual revenue growth while minimising losses incurred due to increased credit risk exposure. The Company trades only with recognized and creditworthy third parties. It is the Company's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Company's exposure to bad debts is not significant. For transactions that do not occur in the country of the relevant operating unit, the Company does not offer credit terms without the approval of the Chief Financial Officer.

Excessive risk concentration

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographical region, or have economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Company's performance to developments affecting a particular industry.

In order to avoid excessive concentrations of risk, the Company's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly. The Company does not apply hedge accounting.

Exposure to credit risk

The Company's maximum exposure to credit risk is represented by the outstanding trade and other receivables and cash and bank balances recorded on the consolidated statement of financial statements for the year ended December 31, 2018 and 2017.

Credit risk concentration profile

The Company determines concentrations of credit risk by monitoring the geographical region of its trade receivables on an ongoing basis. The credit risk concentration profile of the Company's trade receivables at the end of the reporting period is as follows:

	2018		2017	
	US$'000	% of total	US$'000	% of total
By geographical region:				
Singapore	596	19%	620	23%
People's Republic of China	1,883	59%	1,277	48%
Hong Kong	633	20%	734	28%
Others	58	2%	37	1%
	3,170	100%	2,668	100%

Liquidity risk

Liquidity risk relates to the risk that the Company will encounter difficulty in meeting financial obligations associated with financial liabilities. The Company's exposure to liquidity risk arises primarily from mismatches of the maturities of financial assets and liabilities. The Company's objective is to maintain a level of sufficient cash and bank balances to finance the Company's operations.

The table below summarises the maturity profile of the Company's financial assets used for managing liquidity risk and financial liabilities at the end of the reporting period based on contractual undiscounted repayment obligations.

	One year or less US$'000	**One year to five years** US$'000	**Total** US$'000
2018			
Financial assets:			
Trade and other receivables	3,673	52	3,725
Cash and cash equivalents	1,327	–	1,327
Total undiscounted financial assets	5,000	52	5,052
Financial liabilities:			
Trade and other payables	6,359	70	6,429
Loans and borrowings	977	11,873	12,850
Total undiscounted financial liabilities	7,336	11,943	19,279
Total net undiscounted financial liabilities	(2,336)	(11,891)	(14,227)
2017			
Financial assets:			
Trade and other receivables	3,892	117	4,009
Cash and cash equivalents	1,349	–	1,349
Total undiscounted financial assets	5,241	117	5,358
Financial liabilities:			
Trade and other payables	5,790	17	5,807
Loans and borrowings	4,283	27,373	31,656
Total undiscounted financial liabilities	10,073	27,390	37,463
Total net undiscounted financial liabilities	(4,832)	(27,273)	(32,105)

Foreign currency risk

The Company has transactional currency exposures arising from sales or purchases that are denominated in a currency other than the respective functional currencies of Company entities, being primarily the Singapore Dollar (SGD), Hong Kong Dollar (HKD) and Renminbi (RMB). The foreign currencies in which these transactions are denominated are primarily USD and Euros (EUR). Majority of the Company's sales are denominated in the respective local currencies whilst some of these costs are denominated in the foreign currencies of the Company entities.

The Company holds cash and short-term deposits denominated in foreign currencies for working capital purposes. At the end of the reporting period, such foreign currency balances are mainly in SGD and USD.

The Company is also exposed to currency translation risk arising from its net investments in foreign operations, including those in China, Hong Kong and Singapore. The Company's net investments in China, Hong Kong and Singapore are not hedged because currency positions in RMB, HKD and SGD are considered to be long-term in nature.

The following table demonstrates the sensitivity of the Company's profit before tax to a reasonably foreseeable change in the USD, EUR, HKD and SGD exchange rates against the respective functional currencies of the Company entities, with all other variables held constant.

	Loss before income tax 2018 US$'000	**Loss before income tax 2017** US$'000
USD/SGD		
- strengthened 6% (2017: 8%)	(27)	92
- weakened 6% (2017: 8%)	27	(92)
EUR/HKD		
- strengthened 11% (2017: 12%)	(35)	(189)
- weakened 11% (2017: 12%)	35	189

Management's Report on Internal Controls over Financial Reporting

Our Chief Executive Officer and Chief Financial Officer are responsible for establishing and maintaining effective internal controls over financial reporting. Our internal controls over financial reporting are designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. Because of their inherent limitations, internal controls over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. A material weakness, as defined in National Instrument 52-109 - Certification of Disclosure in Issuers' Annual and Interim Filings ("NI 52-109"), is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is reasonable possibility that a material misstatement of the annual or interim financial statements will not be prevented or detected on a timely basis.

Our Chief Executive Officer and Chief Financial Officer identified a material weakness in the internal controls over financial reporting as at and for the financial years ended December 31, 2017, 2016 and 2015, which was that the Company did not have sufficient accounting resources and processes necessary to identify and assess complex accounting issues, and to comply with the reporting and compliance requirements of IFRS. This weakness affected the Company's ability to identify and address complex accounting issues on a timely and appropriate basis, including:

(a) the measurement of financial liabilities at fair value on initial recognition with respect to shareholder loans resulting in an overstatement of shareholder loans, an understatement of equity at inception of the shareholder loan and understated financing costs for each of the years ended December 31, 2017, 2016 and 2015;

(b) an over-recognition of revenue resulting from customized revenue arrangements with external customers;

(c) an understatement of inventories at the balance sheet date resulting from purchases from certain overseas suppliers which should have been recognized on an Ex Work or FOB incoterms basis but instead were only recognized when the goods were received at the Company's respective local warehouses subsequently; and

(d) no standardized charts of accounts and subsidiaries' financial reporting packages to ensure consistent presentation of financial statements and related information required for disclosures in the financial statements, which resulted in errors in elimination of intercompany balances and classification of other operating expense line items.

During the year ended December 31, 2018, management has taken remediation plan with respect to the material weaknesses described above includes:

(a) hired a Vice President of Finance and Control in Canada who has over 10 years of experience in IFRS. The Vice President of Finance and Control had travelled to the Company and its main subsidiaries in 2018 to review and assess the internal controls over financial reporting. More comprehensive financial statements closing process has been established to remediate the weakness identified above; and

(b) provided additional training, education and support in IFRS, local regulations and requirements for Canadian reporting issuers.

Management has re-assessed the effectiveness of the Company's internal controls over financial reporting after the remediation plan and concluded that the Company's internal controls over financial reporting were effective as at March 27, 2019.

Use Of Proceeds

The Company received gross proceed of C$19.1 million (US$14.6 million) from the IPO and the transaction costs including commissions and professional fee related to the IPO was US$1.6 million. The net proceeds to the Company was US$13.0 million. There are no significant changes on the intended use of the proceeds from the disclosure previously made in the IPO Prospectus.

	Estimated amount to be expensed per Prospectus	Update in 2018
To repay indebtedness under the Galia Loan in full	US$3.83 million	The Galia loan has been fully repaid in 2018
Financing global expansion initiatives, including IT infrastructure	US$1.2 million	US$1.1 million has been spent on expenditures on global expansion initiatives, including IT infrastructure.
For the further development of our AI modules, as capital expenditures and expenses	US$0.5 million	US$0.1 million has been spent on development of AI modules.
Marketing, creative and promotional activities	US$0.6 million	US$0.2 million has been spent on marketing, creative and promotional activities.
Protection of intellectual property, including without limitation, patents and trademarks	US$0.2 million	US$0.1 million has been spent on protection of intellectual property.
To finance growth initiatives and for general corporate purposes	US$6.2 million	US$3.5 million has been spent on IPO, mainly related to professional fees for lawyers and auditors. The remaining fund has been used in general corporate purposes.

Subsequent Events

On February 14, 2019, Sarment Pte. Ltd. ("SPL") entered into a loan agreement with a private individual pursuant to which he agreed to provide to SPL a 5-month bridge loan in the aggregate amount of US$3.0 million. Pursuant to the terms of the agreement, a charge was executed in favour of the individual granting him a floating charge over SPL's wine inventory in Singapore, whiskey inventory in Geneva and part of Sarment Limited's wine inventory in Hong Kong.

On February 18, 2019, KEYYES, the Company's digital luxury lifestyle club and services provider, was chosen by a European luxury automobile maker as the preferred bidder to provide editorial services for its digital application.

Approval

The Board of Directors of Sarment has approved the contents of this MD&A on March 27, 2019.