

*A copy of this amended and restated preliminary prospectus has been filed with the securities regulatory authorities in each of the provinces and territories of Canada but has not yet become final for the purpose of the sale of securities. Information contained in this preliminary prospectus and amended and restated preliminary prospectus may not be complete and may have to be amended. The securities may not be sold until a receipt for the prospectus is obtained from the securities regulatory authorities.*

No securities regulatory authority has expressed an opinion about these securities and it is an offence to claim otherwise. This prospectus constitutes a public offering of these securities only in those jurisdictions where they may be lawfully offered for sale and therein only by persons permitted to sell such securities. These securities have not been, and will not be, registered under the United States Securities Act of 1933, as amended (the "**U.S. Securities Act**"), or the securities laws of any state of the United States (as such term is defined in Regulation S under the U.S. Securities Act) and may not be offered, sold or delivered, directly or indirectly, in the United States, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act and applicable state securities laws. This prospectus does not constitute an offer to sell or solicitation of an offer to buy any of these securities in the United States. See "Plan of Distribution".

## AMENDED AND RESTATED PRELIMINARY PROSPECTUS

**(amending and restating (i) the amended and restated preliminary prospectus dated December 16, 2020 in each of the provinces and territories of Canada except Québec, which amended and restated the preliminary prospectus dated December 15, 2020 and (ii) the preliminary prospectus for the province of Québec dated December 16, 2020)**

Initial Public Offering

December 23, 2020

# KITS

**KITS EYECARE LTD.**

**\$55,000,000**

**6,470,588 Common Shares**

This prospectus qualifies the distribution (the "**Offering**") of 6,470,588 common shares ("**Common Shares**") of Kits Eyecare Ltd. (the "**Company**", "**KITS**", "**us**" or "**we**") by the Company at a price of \$8.50 per Common Share (the "**Offering Price**").

The Common Shares are being offered on a "commercially reasonable best efforts" basis pursuant to the terms and conditions of an agency agreement (the "**Agency Agreement**") dated [●], 2020 by and among the Company, the Principal Shareholders (as defined herein), Canaccord Genuity Corp. (the "**Lead Agent**"), CIBC World Markets Inc., Scotia Capital Inc., Roth Canada, ULC, Haywood Securities Inc. and Stifel Nicolaus Canada Inc. (collectively with the Lead Agent, the "**Agents**"). The Offering Price for the Common Shares was determined based upon arm's length negotiations between the Company and the Agents, in the context of the market. See "Plan of Distribution".

KITS is a rapidly growing, digital eyecare platform providing eyewear for eyes everywhere. We offer customers access to a vast selection of contact lenses and eyeglasses, including our own exclusive KITS designed products, as well as a robust suite of online vision tools. Our efficient digital platform, backed by our industry-leading manufacturing and designs, removes intermediaries and enables us to offer great prices and deliver made to order personalized products with incredible care and accuracy. We are creating disruption in the industry by constantly pursuing cutting-edge technologies to enable the best customer experience, including online eyewear fitting tools, virtual try-on for glasses, and an integrated online vision test. We strive to delight our customers with our competitive prices, a convenient digital shopping experience, fast and reliable delivery options – including our convenient "Autoship" subscription program for contact lenses – and an unrelenting focus on earning our customers' lifelong trust. See "The Business of KITS".

Upon completion of the Offering and after giving effect to the Pre-Closing Capital Changes (as defined herein) and assuming no exercise of the Over-Allotment Option (as defined herein), the Original Kits Shareholders (as defined herein) will, collectively, own or control, directly or indirectly, 13,272,212 Common Shares, which will represent 42.8% of the then outstanding Common Shares (12,360,447 Common Shares, or 39.9% of the then outstanding Common Shares, if the Over-Allotment Option is exercised in full), and LD Group Holdings Ltd. ("**LD Group**"), a company whose shareholders are comprised of the LD Vision Shareholders (as defined herein) will own 10,670,589 Common Shares, which will represent 34.4% of the then outstanding Common Shares (10,611,766 Common Shares, or 34.2% of the then outstanding Common Shares, if the Over-Allotment Option is exercised in full). See "Description of Share Capital" and "Principal Shareholders". As a result, the Principal Shareholders (as defined herein) will have significant influence over us and our affairs. All of the Common Shares held upon completion of the Offering by the Principal Shareholders and our directors and executive



WELCOME TO

# KITS

OUR ECOMMERCE AND HEALTH PLATFORM  
FOR EYES EVERYWHERE



WE ARE A

**TECHNOLOGY  
HEALTHCARE  
CONSUMER  
MANUFACTURING  
DESIGN**

COMPANY

# YOU SEE IT TO BELIEVE



**600K+**  
ACTIVE CUSTOMERS<sup>(1)(2)</sup>

**69%**  
2019 REVENUE FROM<sup>(2)</sup>  
REPEAT CUSTOMERS

**EBITDA**<sup>(3)</sup>  
POSITIVE IN 2019<sup>(2)</sup>  
AND YTD 2020<sup>(4)</sup>

**63%**  
FEMALE  
DEMOGRAPHIC<sup>(5)</sup>

**49%**  
BETWEEN THE  
AGE OF 25-44<sup>(5)</sup>

(1) CUSTOMERS THAT HAVE PURCHASED IN THE 4 YEAR PERIOD ENDED SEPTEMBER 30, 2020

(2) PROFORMA FOR THE ACQUISITION OF KITS.COM TECHNOLOGIES INC. ON APRIL 5, 2019, REFER TO "SELECTED PRO FORMA AND CONSOLIDATED FINANCIAL INFORMATION AND OTHER DATA"

(3) REFER TO "NON-IFRS MEASURES AND E-COMMERCE INDUSTRY METRICS"

(4) FOR THE 9 MONTHS ENDED SEPTEMBER 30, 2020

(5) COMPANY DATA FROM JANUARY 1 - AUGUST 5, 2020



**A VISION.  
A VISIONARY.  
OR BOTH.**



**WE  
ARE  
ALL  
ABOUT  
EYES.**

# YOU FALL IN LOVE AT FIRST SIGHT.

WE OPERATE IN A LARGE, ATTRACTIVE INDUSTRY  
THAT IS RIPE FOR DISRUPTION.

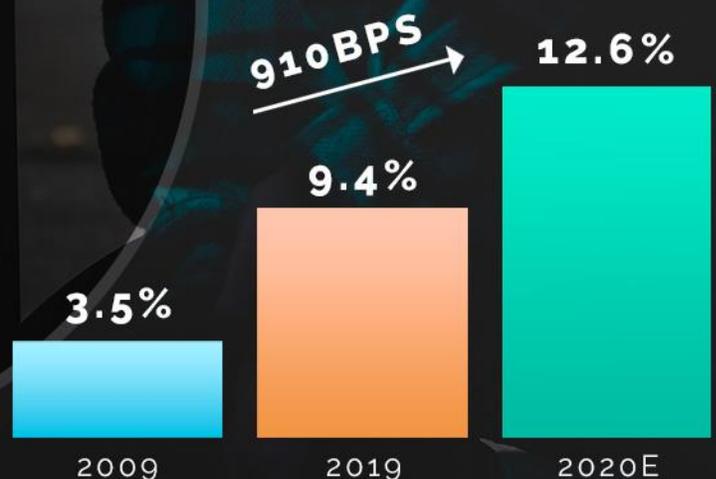
**US\$35.2B**

2020E NORTH AMERICAN  
EYEWEAR MARKET SIZE<sup>1</sup>

**US\$7.2B**

2020E NORTH AMERICAN  
CONTACT LENSES AND  
SOLUTIONS MARKET<sup>1</sup>

NORTH AMERICAN  
EYEWEAR MARKET  
E-COMMERCE  
PENETRATION<sup>(1)</sup>



(1) SOURCE: EUROMONITOR INTERNATIONAL LIMITED, PERSONAL ACCESSORIES 2021 EDITION, PUBLISHED JUNE 2020, INCLUDES THE INITIAL IMPACT OF COVID.

officers will be subject to contractual Lock-Up Arrangements (as defined herein) with the Agents (as defined herein). See "Plan of Distribution – Lock-Up Arrangements".

**There is currently no market through which the Common Shares may be sold and purchasers may not be able to resell the Common Shares purchased under this prospectus. This may affect the pricing of the Common Shares in the secondary market, the transparency and availability of trading prices, the liquidity of the Common Shares, and the extent of issuer regulation.** See "Risk Factors". We have applied to list the Common Shares under the symbol "KITS" on the Toronto Stock Exchange (the "TSX"). Listing is subject to the approval of the TSX in accordance with its original listing requirements. The TSX has not conditionally approved the listing application and there is no assurance that it will do so. Closing (as defined herein) is conditional on the Common Shares being approved for listing on the TSX. See "Plan of Distribution".

**An investment in the Common Shares is subject to a number of risks that should be considered by a prospective purchaser. Prospective purchasers should carefully consider the risk factors described under "Risk Factors" before purchasing Common Shares.**

**PRICE: \$8.50 PER COMMON SHARE**

	<u>Price to the Public<sup>(1)</sup></u>	<u>Agents' Fee<sup>(2)</sup></u>	<u>Net Proceeds to the Company<sup>(3)</sup></u>
Per Common Share .....	\$8.50	\$0.51	\$7.99
Total Offering <sup>(4)</sup> .....	\$55,000,000	\$3,300,000	\$51,700,000

Notes:

- (1) The Offering Price has been determined by negotiation between us and the Lead Agent, on behalf of the Agents.
- (2) In consideration for the services rendered by the Agents in connection with the Offering, the Company has agreed to pay the Agents a fee (the "Agents' Fee") equal to 6.0% of the gross proceeds of the Offering. The Company has also agreed to pay to the Lead Agent a corporate finance fee of \$250,000 (the "Corporate Finance Fee"), of which \$125,000 shall be payable in cash and \$125,000 will be payable by the issuance of 14,706 Common Shares at the Offering Price (the "Corporate Finance Fee Shares"). This Prospectus qualifies the distribution of the Corporate Finance Fee Shares. See "Plan of Distribution".
- (3) Before deducting expenses of the Offering estimated at \$1,000,000 (not including the Agents' fee). We have also agreed to reimburse the Agents for their reasonable expenses in connection with the Offering. See "Use of Proceeds" and "Plan of Distribution".
- (4) The Principal Shareholders (as defined herein) have granted the Agents an option (the "Over-Allotment Option"), exercisable, in whole or in part, at any time for a period of 30 days after the Closing Date (as defined herein), to purchase from the Principal Shareholders up to an aggregate 970,588 additional Common Shares on the same terms as set forth above solely to cover over-allotments, if any, and for market stabilization purposes. If the Over-Allotment Option is exercised in full, the total "Price to the Public", "Agents' Fee" and "Net Proceeds to the Company" will remain unchanged and the Principal Shareholders will receive net proceeds of \$7,755,000, after deducting the Agents' fee of \$495,000, and before deducting expenses relating to the exercise of the Over-Allotment Option estimated at \$50,000, which will be borne by the Principal Shareholders. This prospectus also qualifies the grant of the Over-Allotment Option and the sale of the Common Shares upon the exercise of the Over-Allotment Option. A purchaser who acquires Common Shares forming part of the Agents' over-allocation position acquires such Common Shares under this prospectus, regardless of whether the Agents' over-allocation position is ultimately filled through the exercise of the Over-Allotment Option or secondary market purchases. See "Plan of Distribution".

In connection with the Offering, the Agents have been granted the Over-Allotment Option and may, subject to applicable law, over-allocate or effect transactions which stabilize or maintain the market price of the Common Shares at levels other than those which otherwise might prevail on the open market. Such transactions, if commenced, may be discontinued at any time. See "Plan of Distribution".

The following table sets out the number of Common Shares that may be sold by the Principal Shareholders to the Agents pursuant to the Over-Allotment Option, and the number of securities that may be issued by the Company to the Agents pursuant to the Corporate Finance Fee Shares:

<u>Agents' Position</u>	<u>Maximum Number of Securities Available</u>	<u>Exercise Period</u>	<u>Exercise Price</u>
Over-Allotment Option .....	970,588 Common Shares	Up to 30 days following the Closing Date	\$8.50 per Common Share
Corporate Finance Fee Shares .....	14,706 Common Shares	N/A	N/A

Potential investors are advised to consult their own legal counsel and other professional advisers in order to assess income tax, legal, and other aspects of this investment.

**This Offering is not underwritten or guaranteed by any person.** The Agents conditionally offer the Common Shares for sale on a "commercially reasonable efforts" basis without underwriter liability, subject to prior sale, if, as and when issued by the Company, in accordance with the conditions contained in the Agency Agreement referred to under "Plan of Distribution" and subject to approval of certain legal matters on the Company's behalf by Sangra Moller LLP and on behalf of the Agents by Blake, Cassels & Graydon LLP. Subscriptions will be received subject to rejection or allotment in whole or in part and the right is reserved to close the subscription books at any time without notice. The Offering is expected to close on or about January 7, 2021 (the "**Closing Date**") or such other date as the Company and the Lead Agent may agree, provided that the Closing Date may not occur after 90 days from the date of the receipt for the final prospectus unless an amendment to the final prospectus is filed and the regulator has issued a receipt for the amendment.

If subscriptions representing the Offering are not received within 90 days of the issuance of a receipt for the final prospectus in respect of the Offering, or if a receipt has been issued for an amendment to the final prospectus, within 90 days of the issuance of such receipt and in any event not later than 180 days from the date of receipt for the final prospectus in respect of the Offering, the Offering will cease. If the Offering has not closed on or before 90 days from the issuance of a receipt for the final prospectus, the Offering will be discontinued and all subscription monies will be returned to purchasers by the Agents without interest or deduction, unless an amendment to the prospectus is filed and a receipt has been issued for such amendment. See "Plan of Distribution".

Except in certain limited circumstances, including with respect to Common Shares sold pursuant to Regulation D under the United States *Securities Act of 1933*, as amended (the "**U.S. Securities Act**"), which will be represented by individual, physical certificates: (i) the Common Shares will be registered and represented electronically through the non-certificated inventory ("**NCI**") system of CDS Clearing and Depository Services Inc. ("**CDS**") in "book-entry only" form; (ii) no certificates evidencing the Common Shares will be issued to purchasers of Common Shares unless specifically requested; and (iii) purchasers of Common Shares will receive only a customer confirmation from an Agent or other registered dealer who is a CDS depository participant ("**Participant**") and from or through whom a beneficial interest in the Common Shares is purchased. Such request will need to be made through a Participant through whom the beneficial interest in the securities is held at the time of request.

Ted Goldthorpe, Peter Lee and Anne Kavanagh, each of whom is a director of the Company, reside outside of Canada and have appointed the Company at its registered office set forth below as their agent for service of process. Purchasers are advised that it may not be possible for investors to enforce judgments obtained in Canada against any person that resides outside of Canada, even if the person has appointed an agent for service of process.

The registered and head office of the Company is Suite 1020, 510 Seymour St, Vancouver, British Columbia, V6B 3J5.

# KITS

Dear Prospective Shareholders,

As we prepare this opening letter to shareholders, the world is confronting one of the greatest health threats of our lifetime. A threat that profoundly impacts people and businesses everywhere. Our thoughts remain with front line workers, those who have been deeply affected by COVID-19, and their families. Having personally experienced COVID-19, I know firsthand the seriousness of this potentially deadly virus and I am accordingly grateful to those who put themselves in harm's way to help others.

We have been fortunate that KITS stands at the intersection of technology, healthcare, and non-discretionary consumer products. Each of these categories is experiencing a significant secular shift which is accelerating as the world changes to how it receives and delivers products and services.

Previously I was the founder and CEO of Coastal Contacts Inc., one of the first online and direct retailers of eyecare in North America and around the world. Coastal Contacts was a Toronto Stock Exchange and Nasdaq listed company that was acquired by Essilor, the largest eyewear company in the world, in 2014. Since that time, I have been focused on private investing, but I kept hearing from past customers, friends, and family about the dismantling of my old company. This made me concerned that the progress we had made to make eyecare directly accessible to consumers had been stalled. And so, as an entrepreneur, I couldn't sit on the sidelines. I decided to return to the eyecare category and build a new and disruptive challenger to the status quo. I set out to recruit a world class team because, if I was going to do something, it had to be meaningful. I knew that the timing of technological innovations including digital eye exams would be key to unlocking telehealth and digital healthcare opportunities. I also knew our new efforts would be accelerated by my existing knowledge of what is a deliberately opaque category.

When we started KITS, we wanted to improve the lives of vision corrected customers everywhere. On our early morning walks along Kitsilano "Kits" beach, where the Pacific Ocean meets Vancouver's majestic, snowcapped mountains, we debated and mused about the vision category and all its flaws. We asked ourselves how a category so large (\$35 billion) could still be dominated by an offering that was clearly inferior to those in other product categories? Why true value was hard to find? And how could a small set of playbooks have resulted in one of the largest monopolies on the planet?

Starting from the customer's perspective, we worked backwards. Knowing that customers want great quality, incredible value, and the convenience of an efficient and fast process, we set out to build a truly disruptive and revolutionary category leading vision platform. We began by searching the world for the highest quality materials and manufacturers in cities like Milan, Stockholm, New York, and Hong Kong so we could eliminate the myriad intermediaries. Then, we worked on improving the supply chain by building out an in-house industrial grade vertically integrated eyecare lab to ensure that we would be able to deliver faster and at a higher quality than the traditional "mom and pop" eyewear shops who today still serve 50% of the market. Once the building blocks were in place, our business began to grow and we realized that we could serve so many more. We evaluated several companies to partner with and found a clear leader in LD Vision Group Inc. The synergies were so compelling that we merged the companies to the benefit of the more than 600,000 active customers. We added the benefit of some of the leading proprietary technologies on the planet, all with an "eye" to create value, reshape the category landscape and create a truly disruptive offering.

As we exited 2019, the business exceeded our expectations and achieved record revenues of \$50 million with positive earnings and EBITDA. We set our sights for 2020 with some aggressive targets for growth.

We entered this pandemic from a position of strength with a strong underlying strategy and a seasoned bench of world class professionals. January and February had strong momentum, and as COVID-19 hit in March, year over year revenues accelerated as traditional retailers closed their doors. All of our systems and those of our suppliers were tested as many retailers shut their doors and/or furloughed employees. It was amazing how quickly our team mobilized and implemented work-from-home operations and scaled to meet demand. The thoughtful planning of our capable team ensured that our customers' orders continued to be delivered without interruption, despite the many adversities. Customer ratings, which we watch closely and believe are a good indication of the value we deliver to so many customers, continued to be strong without exception through this unprecedented time. We took the opportunity to serve many new customers as the secular shift from in-store retail to digital and direct retail gathered steam. As we had forecasted, online eye tests and the many other tools that make a customer's life easier online were authorized for use. More broadly, we also rolled out our eyecare solutions which included a pupillary distance tool and an online "virtual try-on" tool to make buying eyewear at home easier

and less challenging. And while these tools are not yet perfect, they will be evolving quickly as we take feedback from customers and look to improve upon them.

As the third quarter closed, business remained robust. Our Company continued strong growth, finishing the quarter with \$20 million in revenue, up approximately 68% over the third quarter of the prior year. In the quarter, we made significant investments in people, systems, and products as we scaled to ensure that we could continue to deliver the premium service our customers expect.

One of the most exciting launches this year was that of our “Autoship” subscription program, where we began to offer our already loyal customers the opportunity for even more convenience and savings. Autoship allows customers to “set it and forget it” to ensure they never have to worry about their next pair of contact lenses, and eventually eyeglasses as well. As we exited the third quarter, we exceeded our plan on Autoship with over 10% of customers signing up for a subscription program upon checkout. We believe this program will continue to be accepted by more and more customers and improve our already impressive customer lifetime values.

Of course, no one can say with certainty what the year ahead holds. We believe that North America is undergoing an accelerated shift from traditional retail brick-and-mortar business to digital and direct retail at unprecedented rates. In this moment, we believe that those who work hardest and smartest have an opportunity to outpace the competition, and that this will position us for continued growth and success as we move past the pandemic.

My goal as CEO remains to work with the team to set the vision for the Company and to hold myself and the team accountable to achieve and exceed the mission. I want to express my sincere gratitude and thanks to the employees of KITS who have joined us on our mission to improve the lives of our customers by offering access to high quality **EYECARE FOR EYES EVERYWHERE**. We look forward to updating shareholders in the quarters to come on the Company's continued progress in meeting its objectives.

Roger Hardy  
Chairman and Chief Executive Officer

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## ABOUT THIS PROSPECTUS

An investor should rely only on the information contained in this prospectus. Neither we nor any of the Agents have authorized anyone to provide investors with additional or different information. The information contained on any of our websites, including [www.KITS.com](http://www.KITS.com), [www.KITS.ca](http://www.KITS.ca), [www.OptiContacts.com](http://www.OptiContacts.com), and [www.ContactsExpress.ca](http://www.ContactsExpress.ca), is not intended to be included in or incorporated by reference into this prospectus and prospective investors should not rely on such information when deciding whether or not to invest in the Common Shares. Any graphs, tables or other information demonstrating our historical performance or of any other entity contained in this prospectus are intended only to illustrate past performance and are not necessarily indicative of our or such entities' future. The information contained in this prospectus is accurate only as of the date of this prospectus or the date indicated, regardless of the time of delivery of this prospectus or of any sale of the Common Shares.

Neither we nor any of the Agents are offering to sell the Common Shares in any jurisdiction where the offer or sale of such securities is not permitted. For investors outside Canada, neither we nor any of the Agents has done anything that would permit the Offering or possession or distribution of this prospectus in any jurisdiction where action for that purpose is required, other than in Canada. Investors are required to inform themselves about, and to observe any restrictions relating to, the Offering and the possession or distribution of this prospectus.

Unless otherwise noted or the context otherwise requires, information contained in this prospectus: (a) gives effect to the Pre-Closing Capital Changes as described under "Description of Share Capital – Pre-Closing Capital Changes", and (b) assumes that the Over-Allotment Option has not been exercised.

### MEANING OF CERTAIN REFERENCES

All references in this prospectus to the "Company", "KITS", "we", "us" or "our" refer to Kits Eyecare Ltd. together with our subsidiaries, on a consolidated basis.

"**CAGR**" refers to compound annual growth rate.

"**Fiscal 2019**" refers to the year ended December 31, 2019.

"**Fiscal 2020**" refers to the year ended December 31, 2020.

"**Q3 2019**" refers to the three-month period ended September 30, 2019.

"**Q3 2020**" refers to the three-month period ended September 30, 2020.

### EXCHANGE RATE DATA

The following table sets out the high and low rates of exchange for one U.S. dollar expressed in Canadian dollars during each of the following periods, the average rate of exchange for those periods and the rate of exchange in effect at the end of each of those periods, each based on the rate of exchange published by the Bank of Canada for conversion of U.S. dollars into Canadian dollars.

	<u>Nine Months Ended Sep. 30,</u>		<u>Year Ended Dec. 31,</u>		
	<u>2020</u>	<u>2019</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
	(\$)	(\$)	(\$)	(\$)	(\$)
Highest rate during the period.....	1.450	1.360	1.360	1.364	1.374
Lowest rate during the period .....	1.297	1.304	1.299	1.229	1.213
Average during period .....	1.354	1.323	1.327	1.296	1.299
Rate at the end of the period.....	1.334	1.324	1.299	1.364	1.255

On December 22, 2020, the rate of exchange posted by the Bank of Canada for conversion of U.S. dollars into Canadian dollars was US\$1.00 equals \$1.291. No representation is made that Canadian dollars could be converted into U.S. dollars at that rate or any other rate.

We present our financial statements in Canadian dollars and disclose certain financial information in this prospectus in Canadian dollars. In this prospectus, references to "\$" are to Canadian dollars and references to "US\$" or "U.S. dollars" are

to United States dollars. Amounts are stated in Canadian dollars unless otherwise indicated. Certain totals, subtotals and percentages throughout this prospectus may not reconcile due to rounding.

## NON-IFRS MEASURES AND E-COMMERCE INDUSTRY METRICS

This prospectus makes reference to certain non-IFRS measures and certain industry metrics. These measures are not recognized measures under International Financial Reporting Standards ("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 our results of operations from management's perspective. Accordingly, these measures should not be considered in isolation nor as a substitute for analysis of our financial information reported under IFRS. We use non-IFRS measures including "EBITDA", "Adjusted EBITDA", "Adjusted EBITDA Margin" and "Run-Rate Revenue". This prospectus also makes reference to LTV, CAC and AOV (each as defined below), which are commonly used metrics in our industry. These non-IFRS measures and industry metrics are used to provide investors with supplemental measures of our operating performance and thus highlight trends in our core business that may not otherwise be apparent when relying solely on IFRS measures. We also believe that securities analysts, investors and other interested parties frequently use non-IFRS measures and industry metrics in the evaluation of issuers. Our 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 management compensation. These measures as well as other financial disclosure are not and should not be construed as indications of future operating performance and financial results and should not be relied upon as such. See "Risk Factors".

"**AOV**" is defined as the average order value and is calculated as revenue divided by orders.

"**Adjusted EBITDA**" is defined as consolidated net income (loss) before depreciation and amortization, finance cost and provision for income taxes, adjusted for the impact of certain items, including non-cash items such as stock-based compensation, unrealized foreign exchange gains or losses and other items we consider non-recurring and not representative of our ongoing operating performance.

"**Adjusted EBITDA Margin**" is defined as Adjusted EBITDA divided by revenue from the same period.

"**CAC**" is defined as customer acquisition cost and is calculated as the advertising and marketing expense attributable to new customer acquisition in a period, excluding any discounts offered, divided by the customers acquired during that same period.

"**EBITDA**" is defined as consolidated net income (loss) before depreciation and amortization, finance cost and provision for income taxes.

"**LTV**" is defined as the lifetime value of the customer and is calculated as the cumulative revenue over a period of time attributable to a particular cohort divided by the number customers during that period.

"**Run-Rate Revenue**" is defined as revenue of the Company for the three months ended September 30, 2020, annualized.

See "Selected Pro Forma and Consolidated Financial Information and Other Data" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" for a reconciliation of the foregoing non-IFRS measures to their most directly comparable measures calculated in accordance with IFRS.

## FORWARD-LOOKING INFORMATION

This prospectus contains "forward-looking information" within the meaning of applicable securities laws in Canada. Forward-looking information may relate to our future financial outlook and anticipated events or results and may include information regarding our financial position, business strategy, growth strategies, budgets, operations, financial results, taxes, dividend policy, plans and objectives. Particularly, information regarding our expectations of future results, performance, achievements, prospects or opportunities or the markets in which we operate is forward-looking information. In some cases, forward-looking information can be identified by the use of forward-looking terminology such as "plans", "targets", "expects" or "does not expect", "is expected", "an opportunity exists", "budget", "scheduled", "estimates", "outlook", "forecasts", "projection", "prospects", "strategy", "intends", "anticipates", "does not anticipate", "believes", or

variations of such words and phrases or state that certain actions, events or results "may", "could", "would", "might", "will", "will be taken", "occur" or "be achieved". In addition, any statements that refer to expectations, intentions, projections or other characterizations of future events or circumstances contain forward-looking information. Statements containing forward-looking information are not historical facts but instead represent management's expectations, estimates and projections regarding future events or circumstances.

Discussions containing forward-looking information may be found, among other places, under "Prospectus Summary", "The Business of KITS", "Selected Pro Forma and Consolidated Financial Information and Other Data", "Management's Discussion and Analysis of Financial Condition and Results of Operations", "Description of Share Capital", "Dividend Policy", "Principal Shareholders", "Directors and Executive Officers", "Executive Compensation", "Director Compensation" and "Risk Factors".

This forward-looking information includes, among other things, statements relating to:

- the Offering Price, the completion, size, expenses and timing of Closing;
- expectations regarding industry trends, overall market growth rates and our growth rates and growth strategies, including the growth of Autoship and our glasses business;
- expectations regarding certain of our preliminary results and information with respect to the three months ending December 31, 2020;
- expectations regarding our sales growth, capital expenditures, operations, gross margins, and use of future cash flow;
- our business plans and strategies;
- expectations regarding brand expansions;
- expectations regarding revenue;
- expectations regarding new technologies;
- expectations regarding the repositioning of existing websites;
- our competitive position in our industry;
- our regulatory environment;
- the Pre-Closing Capital Changes;
- expectations regarding future employee, director and executive compensation levels and plans;
- the market price for the Common Shares;
- beliefs and intentions regarding the ownership of material trademarks and domain names used in connection with the design, production, marketing, distribution and sale of our products; and
- intentions with respect to the implementation of new accounting standards.

See "Management's Discussion and Analysis of Financial Condition and Results of Operations – Financial Outlook" for additional information concerning our strategies, assumptions and market outlook in relation to these assessments.

This forward-looking information and other forward-looking information are based on our opinions, estimates and assumptions in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors that we currently believe are appropriate and reasonable in the circumstances. Despite a careful process to prepare and review the forward-looking information, there can be no assurance that the underlying opinions, estimates and assumptions will prove to be correct. Certain assumptions in respect of the expansion and enhancement of our optical laboratory for glasses and warehouse facilities; the growth of our business and launch of new technologies; our ability to drive sales growth; our ability to maintain, enhance, and grow within our addressable market; our ability to drive ongoing development and innovation of our exclusive brands and product categories; our ability to continue directly sourcing from third party suppliers and manufacturers; our ability to retain key personnel; our ability to maintain and expand distribution capabilities; our ability to continue investing in infrastructure to support our growth; our ability to obtain and maintain existing financing on acceptable terms; currency exchange and interest rates; the impact of competition; the changes and trends in our industry or the global economy; and the changes in laws, rules, regulations, and global standards are material factors made in preparing forward-looking information and management's expectations.

Forward-looking information is necessarily based on a number of opinions, estimates and assumptions that we considered appropriate and reasonable as of the date such statements are made, are subject to known and unknown risks, uncertainties, assumptions and other factors that may cause the actual results, level of activity, performance or achievements to be materially different from those expressed or implied by such forward-looking information, including but not limited to the following risk factors described in greater detail under the heading entitled "Risk Factors":

- we operate in a highly competitive industry;
- our new product introductions may not be as successful as we anticipate;
- significant failures of product quality on the part of our suppliers could affect our reputation and impact our revenues;
- the success of the Company is dependent on its ability to forecast and adapt to changes in consumer trends, consumer demands and consumer preferences;
- we may not be able to obtain sufficient quantities of contact lenses and eyeglasses at competitive prices or at all in the future to meet existing or anticipated demand;
- we cannot control all of the various factors that might affect our timely and cost-effective procurement of products from our vendors and delivery of products to our customers;
- we are dependent on our fulfillment and optical lab centres;
- in the event of a partial or total loss of our customer database, we would experience disruptions in our ability to market our products, which may decrease sales;
- our business depends on a strong brand image, and if we are not able to protect and enhance our brands, or if our business and reputation is negatively impacted by actions taken by our suppliers, manufacturers and employees, our business may be negatively impacted;
- any failure to offer high-quality customer service and support may adversely affect our relationships with our existing and prospective customers, and in turn our business, results of operations and financial condition;
- we are dependent on key personnel the loss of which would have an adverse impact on our business;
- we rely heavily on third parties for mail and courier delivery service, marketing and advertising, customer service, prescription verification, technology solutions, and payment processing;
- the sale and distribution of contact lenses and other optical products is subject to various laws and regulations;
- we are subject to health-related legislation in a number of jurisdictions and there may be legal challenges to our ability to conduct our business in the future;
- any failure to comply with U.S. and Canadian regulatory requirements applicable to our business could have an adverse effect on our business;
- rapid growth and development of the market for online commerce may prompt calls for more stringent consumer protection laws that may impose additional burdens on companies;
- we may not be able to adequately protect our intellectual property, or may be subject to third party intellectual property infringement allegations, which could harm the value of our brand and adversely affect our business;
- our business depends on the safe and continued operation of sophisticated equipment in order to assemble eyeglasses for our customers;
- excess inventory could lead to inventory obsolescence and associated costs, but insufficient inventory could harm our customer relationships and profits;
- our future operational success could depend on our ability to negotiate contracts with managed vision care companies, vision insurance providers and other third-party payors;
- the failure of our computer systems to operate effectively and keep pace with our growing capacity requirements could adversely affect our business;
- we have a limited operating history and our growth and operating results may fluctuate significantly;
- our recent growth rates may not be sustainable or indicative of our future growth;
- our limited operating experience and limited brand recognition in markets outside North America may limit our expansion efforts, subject us to additional risks and cause our business and growth to suffer;
- we may incur a variety of costs to engage in the potential acquisition of complementary strategic businesses or assets, and the anticipated benefits of such acquisition opportunities may never be realized;
- we maintain certain insurance policies, but there is no guarantee that our insurance coverage will be sufficient, or that insurance proceeds will be timely paid to us;

- our business is dependent on the rate of Internet usage and the ability of Internet infrastructure to support increased use;
- the satisfactory performance, reliability and availability of our websites, transaction processing systems and network infrastructure are critical to our reputation and our ability to attract and retain customers and to maintain adequate customer service levels;
- we may not be able to successfully implement new technologies or adapt our websites, proprietary technology and transaction processing systems to customer requirements or emerging industry standards;
- if our solutions do not operate as effectively when accessed through mobile devices, our customers and their customers may not be satisfied with our services, which could harm our business;
- if we are not able to generate traffic to our website through search engines and social networking sites, our ability to attract new customers may be impaired;
- we are exposed to cybersecurity risks and those associated with accepting electronic payments;
- we are exposed to litigation risk, product liability and personal injury claims related to our products;
- we post product information and other content on our websites and as such we face potential liability in respect of possible claims based on the nature and content of the materials posted;
- if our management, employees, suppliers, manufacturers or others fail to comply with any laws or regulations for any reason, we could become subject to enforcement actions;
- natural disasters, unusual weather, and geo-political events or acts of terrorism could adversely affect our operations and financial results;
- public health crisis due to epidemic and pandemic diseases such as COVID-19 may adversely affect our business;
- changes in laws and policy relating to taxes or trade may have an adverse effect on our business;
- we are subject to a number of different tax jurisdictions worldwide and the complexity of our multinational operations could subject us to unforeseen income and tax exposure;
- our gross margins may fluctuate;
- increases in compensation, wage pressure and other expenses for vision care professionals, as well as our other employees, may adversely affect our profitability;
- union attempts to organize our employees could negatively affect our business;
- the terms of our loan and any additional debt financing may restrict our current and future operations;
- fluctuations in the value of currencies may impact our operating and financial results;
- significant merchandise returns or refunds could harm our business;
- alternative procedures, or other alternative technologies that may be developed in the future, may cause a substantial decline in the number of contact lens and eyeglass wearers;
- we will incur increased expenses as a result of being a public company; and
- changes in accounting standards could significantly affect our reported financial performance.

If any of these risks or uncertainties materialize, or if the opinions, estimates or assumptions underlying the forward-looking information prove incorrect, actual results or future events might vary materially from those anticipated in the forward-looking information. The opinions, estimates or assumptions referred to above and described in greater detail in "Risk Factors" should be considered carefully by readers.

Although we have attempted to identify important risk factors that could cause actual results to differ materially from those contained in forward-looking information, there may be other risk factors not presently known to us or that we presently believe are not material that could also cause actual results or future events to differ materially from those expressed in such forward-looking information. There can be no assurance that such information will prove to be accurate, as actual results and future events could differ materially from those anticipated in such information. Accordingly, readers should not place undue reliance on forward-looking information, which speaks only as of the date made. The forward-looking information contained in this prospectus represents our expectations as of the date of this prospectus (or as the date they are otherwise stated to be made) and are subject to change after such date. However, we disclaim any intention or obligation or undertaking to update or revise any forward-looking information whether as a result of new information, future events or otherwise, except as required under applicable securities laws in Canada.

**All of the forward-looking information contained in this prospectus is expressly qualified by the foregoing cautionary statements. Investors should read this entire prospectus and consult their own professional advisors to ascertain and assess the income tax, legal, risk factors and other aspects of their investment in the Common Shares.**

## MARKET AND INDUSTRY DATA

Market and industry data presented throughout this prospectus was obtained from independent third party sources such as Euromonitor International Limited, industry reports and publications, websites and other publicly available information, as well as industry and other data prepared by us or on our behalf on the basis of our knowledge of the North American vision care market and economy (including our estimates and assumptions relating to the North American vision care market and economy based on that knowledge). We believe that the market and economic data presented throughout this prospectus are accurate and, with respect to data prepared by us or on our behalf, our estimates and assumptions are currently appropriate and reasonable, but there can be no assurance as to the accuracy or completeness thereof. The accuracy and completeness of the market and economic data presented throughout this prospectus are not guaranteed, and neither we nor any of the Agents make any representation as to the accuracy of such data. Actual outcomes may vary materially from those forecast in such reports or publications, and the prospect for material variation can be expected to increase as the length of the forecast period increases. Although we believe it to be reliable, neither we nor any of the Agents have independently verified any of the data from third party sources referred to in this prospectus, analyzed or verified the underlying studies or surveys relied upon or referred to by such sources, or ascertained the underlying market, economic and other assumptions relied upon by such sources. Market and economic data are subject to variations and cannot be verified due to limits on the availability and reliability of data inputs, the voluntary nature of the data gathering process and other limitations and uncertainties inherent in any statistical survey. Finally, information in this prospectus on the eyewear market from independent market research carried out by Euromonitor International Limited should not be relied upon in making, or refraining from making, any investment decision.

## MARKETING MATERIALS

A "template version" of the following "marketing materials" (each such term as defined in National Instrument 41-101 – *General Prospectus Requirements*) ("**NI 41-101**") for this Offering filed with the securities commission or similar regulatory authority in each of the provinces and territories of Canada are specifically incorporated by reference into this prospectus:

1. the amended investor presentation filed on SEDAR on December 23, 2020; and
2. the amended term sheet filed on SEDAR on December 23, 2020.

The term sheet and investor presentation referred to above are available under our profile on SEDAR at [www.sedar.com](http://www.sedar.com).

In addition, any template version of any other marketing materials filed with the securities commission or similar regulatory authority in each of the provinces and territories of Canada in connection with this Offering, after the date hereof, but prior to the termination of the distribution of the Common Shares under this prospectus (including any amendments to, or an amended version of, any template version of any marketing materials), is deemed to be incorporated by reference herein. Any template version of any marketing materials utilized in connection with this Offering are not part of this prospectus to the extent that the contents of the template version of the marketing materials have been modified or superseded by a statement contained in this prospectus.

## ELIGIBILITY FOR INVESTMENT

In the opinion of Sangra Moller LLP, our counsel, and Blake, Cassels & Graydon LLP, counsel to the Agents, provided that on the Closing Date the Common Shares are listed on a "designated stock exchange", as defined in the *Income Tax Act* (Canada) (the "**Tax Act**") (which currently includes the TSX), the Common Shares acquired pursuant to the Offering on the Closing Date will be, at that time, "qualified investments" under the Tax Act and the regulations thereunder in force on the date of this prospectus, for a trust governed by a "registered retirement savings plan" ("**RRSP**"), "deferred profit sharing plan", "registered retirement income fund" ("**RRIF**"), "registered education savings plan" ("**RESP**"), "registered disability savings plan" ("**RDSP**"), and a "tax-free savings account" ("**TFSA**") (each, a "**Registered Plan**").

The Common Shares are not currently listed on a "designated stock exchange". It is counsel's understanding that the Company has applied to list the Common Shares on the TSX as of the day before the Closing Date. If the Common Shares are not listed on a "designated stock exchange" (which currently includes the TSX) at the time of their issuance on the Closing Date and the Company is not otherwise a "public corporation" at that time, the Common Shares will not be "qualified investments" for Registered Plans at that time.

Notwithstanding that Common Shares may be qualified investments for a trust governed by a RRSP, RRIF, RESP, RDSP or TFSA, the holder of such TFSA, RDSP or annuitant under such RRSP or RRIF or the subscriber under a RESP, as the case may be, will be subject to a penalty tax in respect of the Common Shares if such Common Shares are a "prohibited investment" within the meaning of the Tax Act for the TFSA, RRSP, RESP, RDSP or RRIF. Common Shares will generally be a "prohibited investment" if the holder of a TFSA or RDSP, the subscriber under a RESP or annuitant under a RRSP or RRIF, as the case may be, (i) does not deal at arm's length with the Company for purposes of the Tax Act, or (ii) has a "significant interest" (within the meaning of the Tax Act) in the Company. In addition, the Common Shares will generally not be a prohibited investment if such securities are "excluded property" as defined in the Tax Act for trusts governed by a RRSP, RRIF, RESP, RDSP or TFSA. Prospective purchasers who intend to hold Common Shares in a Registered Plan should consult their own tax advisors regarding their particular circumstances.

## PROSPECTUS SUMMARY

*This summary highlights principal features of the Offering and certain information contained elsewhere in this prospectus. This summary does not contain all of the information you should consider before investing in our Common Shares. You should read this entire prospectus carefully, especially the "Risk Factors" and "Forward-Looking Information" sections of this prospectus, our consolidated financial statements and related notes and management's discussion and analysis appearing elsewhere in this prospectus, before making an investment decision.*

### OVERVIEW: OUR PURPOSE AND WHO WE ARE

*We are striving to become the most trusted and loved online destination for eyes everywhere. We believe in eyecare that leads and inspires. High quality and convenience are the values that underlie the customer experience that we provide. We have built a complete online eyecare platform that offers vision testing, prescription renewals, trusted products, exceptional service, and price leadership, making it simple to shop with us again.*

KITS is a rapidly growing digital eyecare platform for eyes everywhere. We are also:

- A consumer company that enables customers to easily find eyecare they love and have it quickly and conveniently delivered to them, with the ability to subscribe to our Autoship subscription program for contact lenses.
- A healthcare company that provides ultimate customer convenience by providing access to online virtual fittings, pupillary distance measurement, and online vision tests.
- A technology-forward, innovation focused company that uses advanced materials in our silicone hydrogel KITS-branded contact lenses and offers glasses lens treatments, such as our KITS ScreenTime blue-light blocking lens.
- An automated and vertically integrated manufacturing company that produces customized prescriptions with precision for our customers at category-leading prices; and prepares and ships each customer's order with speed and care.
- A design company that creates beautiful glasses for all faces.

Above all else, we are obsessed with taking great care of our customers' eyes. Our ambition is to become the world's largest and most trusted brand in eyecare – KITS has created extraordinary eyecare because we believe that eyes are anything but ordinary.

KITS was founded in October 2018 to bring beautiful and complete vision care to everyone, unlocking convenience and choice. We are obsessed with eyes – our team has a proven track record of executing in the eyewear industry and we know what it takes to build a leading eyecare platform. We offer our customers access to a vast selection of contact lenses and eyeglass frames, including our own exclusive designs, through our network of websites.

Our expertise and historical optical industry relationships have enabled us to establish partnerships with leading healthcare companies and design houses to offer the best in contact lenses and, more recently, glasses. In addition, we offer our own KITS-branded products. Our business has been driven by the loyalty of our customers. We have delivered over 8.7 million boxes of contact lenses since 2002 and over 65,000 pairs of glasses since we began actively marketing glasses in early 2020. Returning customers drove 69% of our Fiscal 2019 revenues<sup>1</sup>. We are constantly pursuing cutting-edge technologies to enable the best customer experience, including access to virtual try-on for glasses, an integrated online vision test, and a pupillary distance test, all of which were incorporated into our sites in 2020. In February 2020, we began our Autoship subscription program, which enables customers to have repeat orders automatically shipped to them at set intervals. The Autoship subscription option for contact lenses is a natural fit for contact lenses and makes reordering convenient and easy; as we exited the third quarter of 2020, over 10% of our contact lens customers opted-in to Autoship at checkout and our goal is to grow this to over 25%. We estimate the lifetime value of customers in our Autoship program is 2x higher than our average non-subscription customer.

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<sup>1</sup> Based on KITS consolidated revenue for Fiscal 2019 pro forma for the acquisition of KITS.com Technologies Inc. on April 5, 2019. See "Selected Pro Forma and Consolidated Financial Information and Other Data".

We know that we only get one chance to show up for the first time. Through our websites and mobile platform, we offer our customers access to more than 40,000 contact lens products, over 500 styles of glasses, and exclusive KITS products. This differentiated experience has resonated with our customers and our consumer rankings continue to climb – our overall customer satisfaction rating is 94% based on over 100,000 customer reviews<sup>2</sup>. To complement our Autoship subscription program for contact lenses, within the past year, we have added an automated optical lab for glasses as well as distribution facilities to create a category-leading customer experience. Our exceptional customer service, high quality products, offerings incorporating the latest eyecare innovations, and fast shipping times facilitate a growing user subscription base using our Autoship program from which we can build revenue predictability and grow our margins.

Our unique multi-brand strategy, technology-based tools, long-term management approach, and exceptional customer service have contributed to strong and consistent financial performance. We have grown revenue by 68% when comparing Q3 2020 to Q3 2019, to a Run-Rate Revenue of \$81 million, with approximately 80% of revenue being generated in the United States and approximately 20% in Canada<sup>3</sup>. We expect to complete 2020 with full-year revenue of approximately \$74 million. See "Forward-Looking Information" and "Risk Factors". This robust growth is supported by recurring orders – 69% of Fiscal 2019<sup>4</sup> revenue was from repeat customers. Our vertically integrated model and high degree of automation drive a low-cost model that yielded strong Adjusted EBITDA Margin of 10% and net income of approximately \$53,000 in Fiscal 2019<sup>5</sup>. For a discussion of Run-Rate Revenue and Adjusted EBITDA and Adjusted EBITDA Margin, which are measures that are not presented in accordance with IFRS, and a reconciliation to the most directly comparable financial measure calculated and presented in accordance with IFRS, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Non-IFRS Measures" and "Selected Pro Forma and Consolidated Financial Information and Other Data".

We believe that KITS is in the early days of its growth trajectory and we have several strategies to grow revenue and gross margin. We attract customers with our strong reputation of convenience, category-leading prices, and customer service, and subsequently encourage those customers to migrate to our KITS-branded offerings in contact lenses and glasses, which yield higher margins. Our long-term focus is to increase revenue by increasing the number of customers we serve and increasing the AOV from those customers. Continued expansion of our KITS brand and the increasing adoption of our Autoship program for contact lenses will help us to acquire and retain those new customers more efficiently.

Further, building on our management team's track record of value-enhancing acquisitions, KITS will look to new opportunities to expand and reach new geographies or adjacent markets. See "The Business of KITS".

## **OUR MARKET OPPORTUNITY**

The retail eyewear market in North America, defined by Euromonitor to include spectacles, sunglasses, and contact lenses & contact solutions in the U.S. and Canada, is forecasted to generate sales of approximately US\$35.2 billion in 2020, with U.S. sales of US\$31.5 billion and Canadian sales of US\$3.7 billion. Given the medical, non-discretionary and recurring nature of eyewear purchases, from 2008 to 2019 the North American retail eyewear market exhibited stable growth with a CAGR of 2.5%, with only modest declines during the 2008 to 2009 recession, according to Euromonitor. Given the COVID-19 pandemic and resulting government actions including, but not limited to, stay-in-place orders and mandated store closures, as well as economic uncertainty, the North American retail eyewear market is expected to contract in 2020, before returning to projected growth with sales reaching approximately US\$40.8 billion in 2025, representing a CAGR of 3.0% from 2020 to 2025. COVID-19 has also resulted in a material increase in the share of online sales within the North American retail eyewear market, as fewer consumers are making physical trips to brick-and-mortar stores, and despite the contraction in the overall retail eyewear market in 2020, the size of the online retail eyewear market is expected to increase in 2020.

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<sup>2</sup> Based on ShopperApproved online customer reviews for OptiContacts.com and ContactsExpress.ca since inception as of November 9, 2020.

<sup>3</sup> Based on KITS consolidated revenue for Fiscal 2019. For the nine months ended September 30, 2020, approximately 82% of revenue was generated in the United States and approximately 18% in Canada.

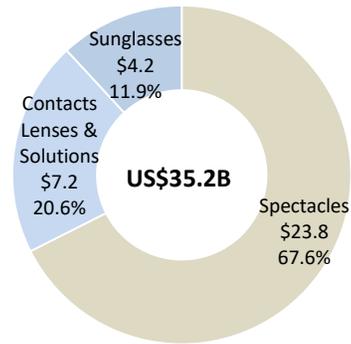
<sup>4</sup> Based on KITS consolidated revenue for Fiscal 2019 pro forma for the acquisition of KITS.com Technologies Inc. on April 5, 2019. See "Selected Pro Forma and Consolidated Financial Information and Other Data".

<sup>5</sup> Based on KITS consolidated performance for Fiscal 2019.

**North American Retail Eyewear Market Size Forecasts (US\$B)<sup>6</sup>**



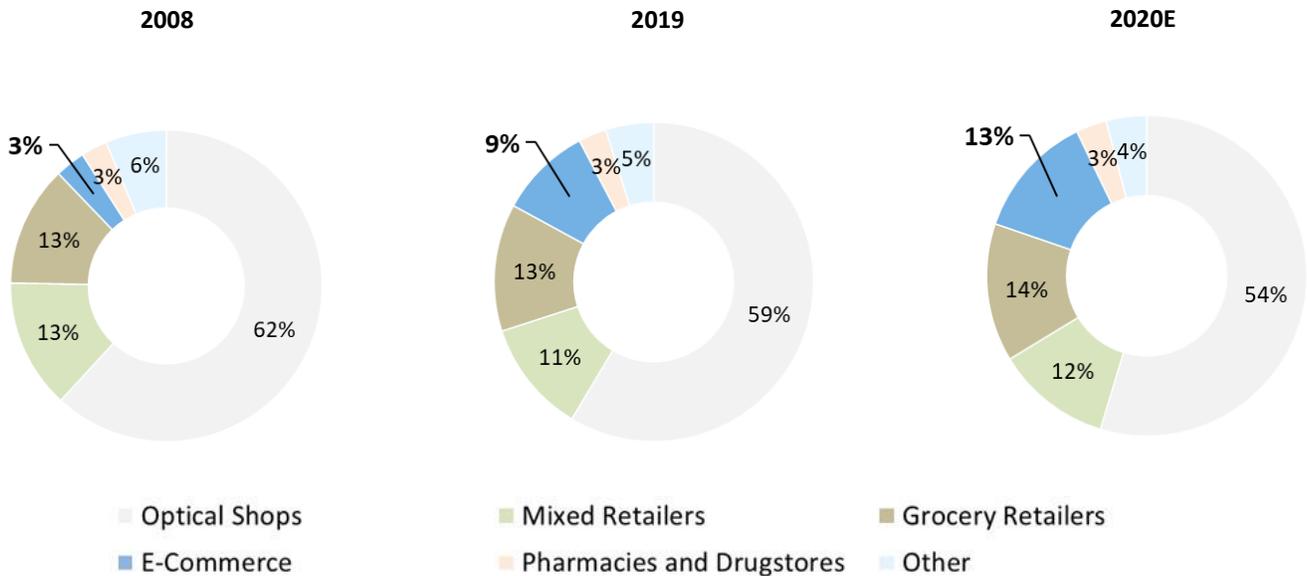
**2020E North American Retail Eyewear Market Size by Product<sup>6</sup>**



*Our Market Opportunity: Online Retailers Rapidly Gaining Market Share in Fragmented Retail Eyewear Market*

The retail eyewear market in North America is highly fragmented, and we estimate that approximately half of the market share is currently held by independent retailers.<sup>7</sup> Over time, independent retailers, ophthalmologists and optometrists in private practice have lost share to scaled national optical retail chains as well as to other scaled market participants, while simultaneously online sales have continued to grow faster than the overall market, with the market share of brick-and-mortar competitors shifting to online. We believe that the online channel also remains highly fragmented with numerous competitors, including many small independent businesses.

**Eyewear Sales by Channel in North America<sup>8</sup>**



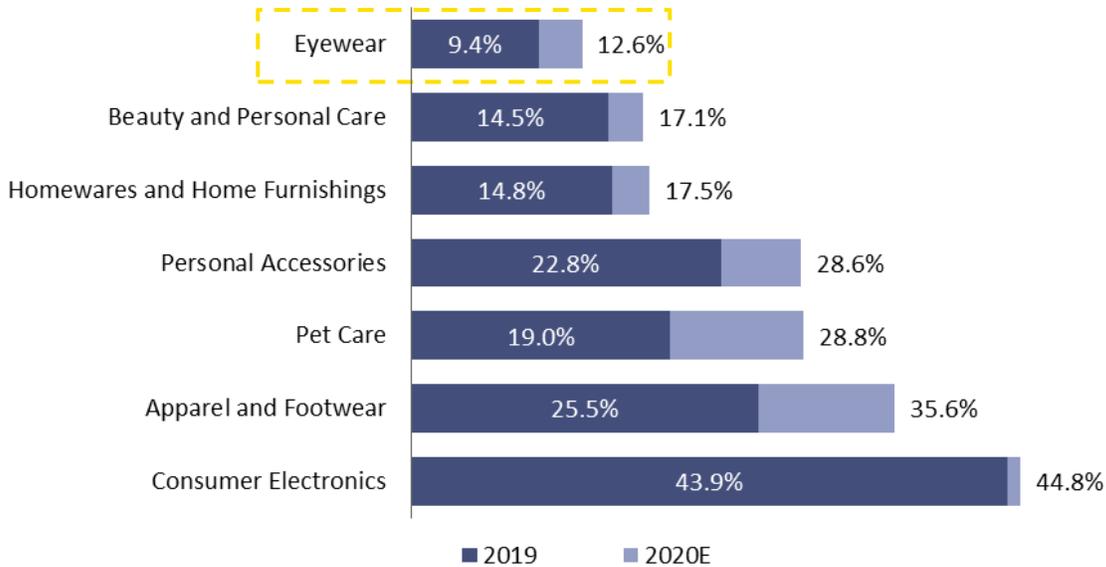
<sup>6</sup> Source: Euromonitor International Limited, Personal Accessories 2021 edition, published June 2020, includes the initial impact of COVID.

<sup>7</sup> Source: Jobson Optical; Represents the market share of U.S. independent optical retailers for the twelve months ending March 2019.

<sup>8</sup> Mixed Retailers include department stores, variety stores, and warehouse clubs. Grocery Retailers include convenience stores, hypermarkets and supermarkets. Other includes leisure and personal goods specialist retailers, apparel and footwear specialist retailers, direct selling and homeshopping. Source: Euromonitor International Limited, Personal Accessories 2021 edition, published June 2020, includes the initial impact of COVID.

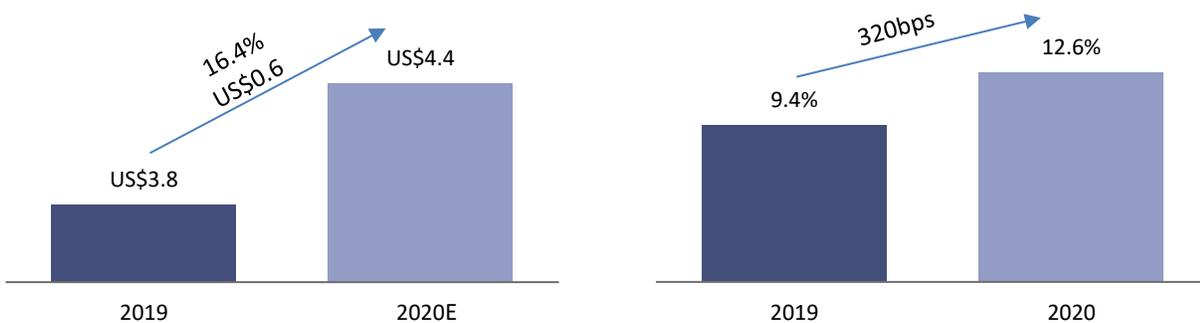
According to Euromonitor, online sales penetration within the North American eyewear market has grown from 3.1% in 2008 to 9.4% in 2019, with U.S. penetration of 9.9% and Canadian penetration of 4.9% in 2019. Online sales in the retail eyewear market have grown in each year from 2008 to 2019, reaching US\$3.8 billion in 2019 and representing a 13.2% CAGR over the period. Overall online sales within the retail eyewear market are relatively underpenetrated, when compared with other retail categories, based on Euromonitor.<sup>9</sup>

**Share of Online Sales by Industry in North America<sup>10</sup>**



Euromonitor projects that despite a decline in the overall North American retail eyewear market in 2020 as a result of the COVID-19 pandemic, growth in the online channel will continue in 2020. The share of North American eyewear market online sales is forecasted to accelerate and expand by approximately 320 bps to 12.6% in 2020, with U.S. penetration of 13.2% and Canadian penetration of 7.2%, an increase of US\$0.6 billion to US\$ 4.4 billion. Within the combined retail eyewear market in 2020, online penetration is expected to be 10.0% for spectacles, 8.6% for sunglasses, and 23.2% for contact lenses & contact solutions, according to Euromonitor.

**Projected North American Retail Eyewear Market Online Sales (US\$B) and Online Penetration<sup>11</sup>**



<sup>9</sup> Source: Euromonitor International Limited, Personal Accessories 2021 edition, published June 2020, includes the initial impact of COVID.

<sup>10</sup> Source: Euromonitor International Limited, Personal Accessories 2021 edition, published June 2020, includes the initial impact of COVID.

<sup>11</sup> Source: Euromonitor International Limited, Personal Accessories 2021 edition, published June 2020, includes the initial impact of COVID.

In 2020 alone, \$0.6 billion in optical sales<sup>12</sup> are anticipated to move from in-store to online in North America.

Based on Euromonitor, daily disposable contact lenses represented 46% or US\$2.7 billion, of the total North American contact lens market in 2019, up from 12.0% in 2008. The market size of daily disposable contact lenses is expected to grow to US\$3.4 billion in 2025, which is projected to represent 55% of the total North American contact lens market.

We anticipate the online channel growth to benefit from trends including:

- Convenience of anytime, anywhere shopping offered by the online channel;
- Suitability of online channel for contact lenses subscriptions;
- Ability to easily browse through full assortment of products online;
- Development of virtual try-on features for glasses;
- Improved capabilities of online eye exams and a more supportive regulatory environment, including the U.S. FDA's temporary policy, issued in April 2020, for remote ophthalmic assessment and monitoring devices; and
- Increasing comfort with and adoption of telehealth alternatives to in-person medical visits.

We also expect the retail eyewear online channel to benefit further from purchasing trends seen during COVID-19 as evidenced across other retail industries, as fewer consumers are making physical trips to brick-and-mortar stores and increasingly turning to making more purchases online. See "The Business of KITS".

### **THE KITS DIFFERENCE: WHAT SETS US APART**

KITS is changing the way consumers shop for eyecare. We have built our platform by understanding what customers want and delivering it to them in one simple, seamless experience. We differentiate ourselves via our wide variety of high quality designs and offerings (including our own KITS brand), competitive prices, commitment to innovation in eyecare, unrivalled customer service rooted in our passion for eyecare, and our complete and convenient online eyecare solution supported by our vertically integrated model.

- **Extensive offering of trusted, high quality brands and our own beautiful designs.**
  - We make it easy for customers by supporting our all-in-one experience with a wide variety of leading brands as well as our own KITS brand, which incorporates our in-house designs that draw inspiration from the people, culture, and environment around us. Our team's depth of relationships in the eyecare industry has enabled us to offer more than 500 styles and 40,000 individual SKUs, representing the best and most desired products in glasses, sunglasses, and contact lenses.
- **Incredible value from our competitive prices, supported by our lowest price guarantee on contact lenses.**
  - We take the stress out of shopping for eyecare and allow customers to focus on finding their perfect fit with our category-leading prices and our lowest price guarantee. Our retail price for a pair of standard KITS prescription eye glasses (frames and lenses) is US\$69<sup>13</sup>, which is materially lower than the average retail price of US\$351 for eye glasses (frames and lenses) sold in the U.S. in 2019, based on Vison Service Plan Global data<sup>14</sup>. Lastly, we offer our KITS-branded silicone hydrogel technology contact lenses at a compelling value relative to branded comparables<sup>15</sup>.
- **Absolute commitment to the latest in eyecare technology and innovation in our product offerings.**
  - We believe that our customers want and deserve the best and latest in technology and innovation – we give them the best so that they can be their best. For example, KITS-branded contacts employ the latest silicone hydrogel technology and all our glasses are available with the latest lens treatment innovations, including KITS ScreenTime blue-light blocking lenses. Our commitment to innovation extends to the environment as well: we are partnered with a team in Patagonia to recycle our manufacturing waste (the excess cuttings from our lens machines) into new frames.
- **Personalized customer care based on our passion for eyecare and service.**

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<sup>12</sup> Source: Euromonitor International Limited, Personal Accessories 2021 edition, published June 2020, includes the initial impact of COVID.

<sup>13</sup> Based on the price for standard KITS brand eyeglasses as of November 10, 2020.

<sup>14</sup> Average retail price for a pair of prescription eye glasses without insurance in 2019, based on Vision Service Plan Global.

<sup>15</sup> Approximately 30% less at \$11.99/box compared to leading daily modality Acuvue product on KITS.com

- We have created trust through our unrelenting focus on serving our customers and believe that this philosophy stands in stark contrast to the experience most customers currently face when they shop for eyecare. Our highly trained customer service team takes great pride in providing personalized and knowledgeable service to our customers through their comprehensive understanding of vision care.
- **Complete eyecare solution focused on the customer experience, from the convenience of home.**
  - We strive to deliver the frictionless end-to-end eyecare shopping experience customers desire by making it simple and convenient to shop with us. Our web platform includes virtual try-on, pupillary distance testing, and the latest in online vision testing, enabling our customers a convenient way to access licensed optometrists and ophthalmologists to renew prescriptions online. Our vertically integrated model, including our fully automated in-house optical lab for glasses (which can produce a finished pair of glasses in as little as ten minutes) and distribution centre, enables us to provide fast, reliable delivery to our customers.

Our control over the branding, design and distribution of our in-house products allows us to deliver the most value to our customers – namely, a compelling balance of high quality and beautiful eyecare at great prices. We are focused on investing in our customers’ experience, continually improving on value, selection and convenience. We support this with an operation that is capital efficient, vertically integrated, and automated for scale. These principles have worked together as a continuum, allowing KITS to grow rapidly, profitably, and offer the best eyecare experience in the industry. See "The Business of KITS".

## OUR STRENGTHS

We believe that we are changing the way people shop for eyecare by transforming what has traditionally been a clinical, confusing, expensive, multi-visit transaction into a seamless, affordable, enjoyable, and convenient experience. Our strengths include:

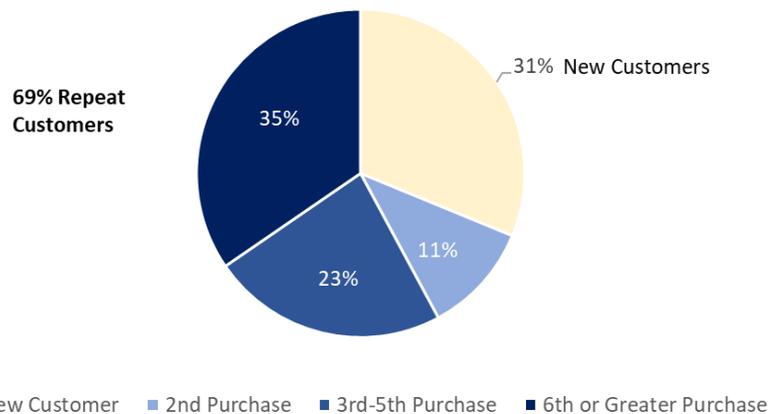
- **Core brand mission of striving to constantly exceed customers’ expectations.**
  - *Relentless customer focus.* We are committed to providing the best possible shopping experience to our customers. We have designed our shopping experience to make finding and buying eyecare convenient and easy. We provide affordable prices, beautifully designed KITS glasses, customizable products, the latest eyewear innovations, convenient automatic reordering, and fast, reliable delivery. This is all reinforced by our lowest price guarantee. We are a top-ranked eyecare provider with an average customer review rating of 94%<sup>16</sup>.
- **A complete online eyecare platform.**
  - *Contact lenses.* We are partnered with leading contact lens manufacturers to offer all the major brands of contact lenses and KITS lenses. Our KITS contacts are advanced technology, silicone hydrogel soft lenses that offer irresistible comfort and high-quality at an incredible price point.
  - *Glasses.* Historically, customers have had to choose between contacts or glasses. Well, why not both? We make it easy and affordable to acquire both by offering quality, in-house designed KITS frames and a wide assortment of other popular leading brands, enabling our customers to find their ideal frames.
  - *Virtual try-on and pupillary distance measurement.* Our websites are integrated with virtual try-on capabilities for glasses, which allows customers to test out different frame styles easily and quickly from anywhere. We also provide a tool that enables customers to measure the distance between their pupils online to optimize the parameters of their lenses.
  - *Online vision test.* We offer access to the latest in remote vision care, enabling our customers a convenient way to access licensed optometrists and ophthalmologists through online prescription renewals. We believe that the capability to provide online vision testing will be a key differentiator for successful eyecare retailers in the future, as more consumers shift from traditional brick-and-mortar channels towards the online channel.

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<sup>16</sup> Based on ShopperApproved online customer reviews for OptiContacts.com and ContactsExpress.ca since inception as of November 9, 2020.

- **Low customer acquisition cost, high long-term value, and profitable customer retention model.**
  - *Low CAC and marketing spend requirement.* We can attract new customers with relatively low levels of marketing spend. In 2019, our new CAC was approximately \$40<sup>17</sup>, repeat CAC was almost \$nil, and our 5-year LTV per repeat customer was approximately \$600<sup>18</sup>. Our low CAC is a result of our relentless focus on making our customers happy, which translates into strong word of mouth advertising as our existing customers rate us highly on online platforms and recommend us to their network of friends and family.
  - *High return on investment.* As our business model consists of a low overhead cost, our profitability increases as customers return for repeat purchases and subscribe to our Autoship program, embedding a profitable, organic, and recurring revenue stream into our economic model.
  - *Profitable customer retention and expanding purchases over time.* Typically, new customers make initial purchases on our platform attracted by our affordable prices and exceptional customer reviews. We strive to make every new customer's shopping experience delightful and to build trust for the KITS platform through the high quality of our eyecare, delivery and customer service. As we earn the trust from new customers, they typically choose to make repeat orders, subscribe to Autoship programs, and migrate to our KITS-branded offerings in contact lenses and glasses, which tend to have higher profitability margins than third-party brands.
- **Growing base of loyal, repeat customers and traction in newly launched contact lens subscription program.**
  - *Loyal, repeat customers.* In 2019, returning customers made up approximately 69% of our revenues, while customers with a history of more than five purchases made up approximately 35% of revenues. The high share of revenue from repeat customers points to strong brand and customer satisfaction, while also driving up customer and profitability economics.

**2019 Shipped Revenue by Customer Purchase Behaviour**

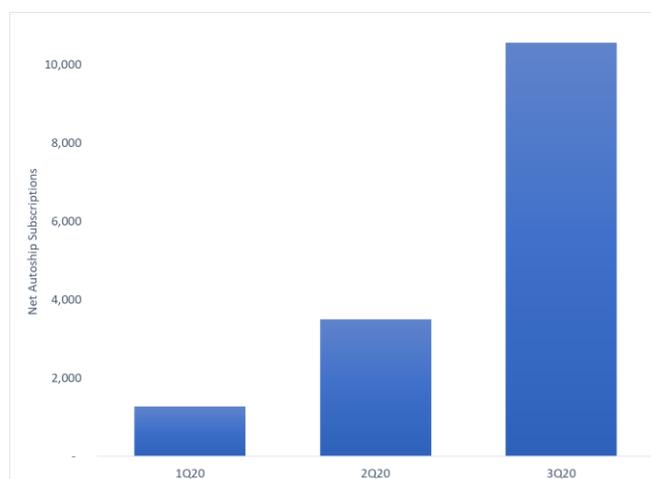


- *Autoship subscription program for contact lenses.* In February 2020, we launched our Autoship subscription program, which enables customers to have repeat orders automatically shipped to them at set intervals. This program enhances the convenience factor for our customers, while also increasing the share of revenue from repeat customers, and as we exited the third quarter of 2020, over 10% of our contact lens customers opted-in to Autoship at checkout and our goal is to grow this to over 25%. The chart below shows our net Autoship subscriptions since inception of our Autoship program.

<sup>17</sup> Calculated as KITS consolidated 2019 total marketing spend divided by new customers in the period.

<sup>18</sup> 5-year total LTV for 2014, 2015, and 2016 cohorts (the latest cohorts with 5 years of data). Each cohort represents over 250,000 customers.

## Net Autoship Subscriptions<sup>19</sup>



- **Vertical integration drives efficiency in distribution, enabling quick production and fast delivery, while eliminating waste.**
  - *In-house optical lab for glasses.* Our fully automated optical lab for glasses began operations in November 2019 and we currently have the capacity to produce over 2,000 pairs of glasses each day. Our in-house lab provides us with the capability to complete the processing of a new glasses order in less than ten minutes and to ship out products to customers on the same day, which has been met with amazement and delight from our customers.
  - *Strategic distribution locations.* The strategic location of our warehouse in Richmond, Canada, which has capacity to fill up to 3,500 orders daily, and distribution partners across North America enables us to ship cost-efficiently across North America.
  - *Inventory management.* We have developed proprietary software and an inventory management system that directs orders through our supplier and fulfillment network in an intelligent, optimized manner. This reduces our inventory holding costs, eliminates waste in the system in terms of cost and shipped miles, and enables us to deliver goods quickly to customers. This combined with expanding our inventory will enable us to fulfill approximately 65% of our customers' orders the next day and approximately 85% in two days.
  - *Optimized asset utilization.* Our high order volume, high subscription program participation rate, and relatively low business seasonality allow us to optimize asset utilization across our network and continually lower our fixed and variable cost per unit and our days of inventory. Our software and data algorithms are continuously learning and optimizing, and each month we become more efficient than the last.
- **We deploy capital efficiently.**
  - Our low CAC enables us to deploy our capital and marketing spend efficiently even as we continue to grow, and to follow a disciplined approach of investing cash flow generated from our existing customer base to attract new customers. Given the rapid and consistent return on investment from our customers we have exclusively relied on cash from operations to fund our growth historically.
- **Passionate and experienced management team supported by best-in-class employees.**
  - Our management team is building a lasting brand through a measured approach to capital allocation and a focus on sustainable growth. Roger Hardy, our CEO, previously founded the successful NASDAQ listed online eyecare business, Coastal Contacts Inc. ("**Coastal**"), and has worked in almost every role imaginable – from designing glasses to leading complex mergers. Roger has convened a team of

<sup>19</sup> Company data, as of October 25, 2020.

seasoned executives with diverse and relevant expertise, who draw on average over 20 years' experience working with a wide range of leading global companies including Amazon, Dyson, Essilor, Goldman Sachs and Procter & Gamble. Their leadership and energy have driven the effervescent culture of our brand and the smooth rollout of our optical lab for glasses.

See "The Business of KITS".

## GROWTH OBJECTIVES AND MILESTONES

We believe that KITS is in the early days of its growth trajectory and we will deploy several strategies to increase net sales and expand gross margins, including:

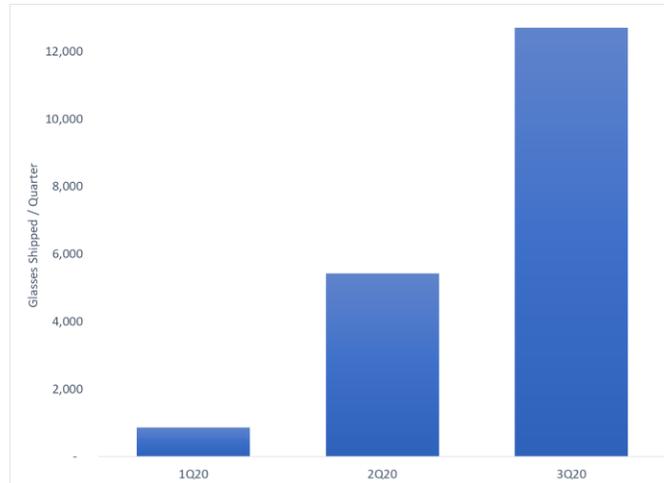
- **Acquiring new customers:** We believe there is a significant opportunity to add new customers over time given the long-term secular shift from in-store to online shopping across all retail categories, including optical. In 2020 alone, \$0.6 billion in optical sales<sup>20</sup> are anticipated to move from in-store to online in North America. We believe this secular trend supports a strategy of allocating capital to advertising and marketing efforts that attract first-time online eyecare shoppers.
  
- **Increasing sales from our existing customers:** We seek to expand our share of our customers' cart over time by increasing AOV and improving retention, thereby increasing our customers' LTV over time. Repeat customers have historically increased annual purchases over time as they discover the full breadth of our product offerings and value proposition; in 2019, 69% of sales were from repeat customers<sup>21</sup>. We plan to pursue this strategy in several ways, such as:
  - Continuing to migrate customers into higher-AOV daily modality contact lenses, as well as the fast-growing and premium-priced colour contacts products;
  - Incentivizing our large base of contact lens customers to purchase a pair of glasses along with their contact lens orders; and
  - Continuing to expand our base of subscription customers, through our Autoship program for contact lenses. The ability for customers to automatically replenish their orders, referred to as "Autoship", was launched in February 2020 and as we exited the third quarter of 2020, over 10% of our contact lens customers opted-in to Autoship at checkout. Our goal is to grow this opt-in rate to 25% which will drive higher retention and increase the LTV of our customers over time.
  
- **Expanding margins with growth in eyeglasses and private brands:** Our target gross margin from our eyeglasses business is approximately 2x the target gross margin from our contact lenses business. We expect our eyeglasses business will continue to increase as a proportion of our total net sales over time and therefore we expect a corresponding expansion in our gross margin profile from this product mix shift. Likewise, we expect sales of KITS-branded eyeglasses and KITS-branded contact lenses to have a higher gross margin than 3<sup>rd</sup> party branded products and as such we anticipate gross margin expansion as private label products become a larger proportion of our total net sales over time.

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<sup>20</sup> Source: Euromonitor International Limited, Personal Accessories 2021 edition, published June 2020, includes the initial impact of COVID.

<sup>21</sup> Based on KITS consolidated revenue for Fiscal 2019 pro forma for the acquisition of KITS.com Technologies Inc. on April 5, 2019. See "Selected Pro Forma and Consolidated Financial Information and Other Data".

### Glasses Shipped



- **Leveraging our technology-forward model and operational efficiencies:** As we have grown sales over the past year, we have also expanded our gross margin, which is a continuing focus and objective for us. As we continue to scale our platform, there will be increasing opportunities to invest in automation, data-driven analytics and new technologies to improve all aspects of our business including product development, marketing, manufacturing, warehousing, distribution, and customer experience. In addition, as our purchase volumes from vendors grow, we expect to be able to achieve lower costs.
- **Investing in manufacturing and distribution capacity:** In 2019, we commenced operations of our fully automated in-house optical lab for glasses; we will continue to invest in our manufacturing capacity and inventory to support our strategic growth plans. We will also prioritize investment in our warehouse, distribution, and fulfillment capabilities to support continued sales growth and build our optical “gigafactory”.
- **Growing through strategic acquisitions:** We have successfully completed and integrated one significant acquisition at KITS since our founding in 2018, and our CEO, Roger Hardy, has a successful track-record of acquiring and integrating optical businesses prior to founding KITS. We will be opportunistic in acquiring businesses that expand our presence in new geographies, new product lines, and/or grow our base of customers, which may include consolidation of certain small independent competitors.

See also "The Business of KITS", "About this Prospectus – Forward Looking Information", "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Risk Factors".

### OUR TEAM

KITS’ management team, based in Vancouver, British Columbia, has significant experience in the eyecare sector.

**Roger Hardy, CEO:** Previously, Roger Hardy was CEO and Co-Founder of Coastal. Under his leadership, the company became the leading North American online eyewear retailer and manufacturer in just a few short years, a triumphant achievement for the entire team. Founded in 2000, Coastal was acquired by Essilor Group Canada Inc. (“**Essilor**”) in 2014.

**Sabrina Liak, CFO and Corporate Secretary:** Sabrina has 19 years of experience in the finance space. Previously, she was a Managing Director and Portfolio Manager at Goldman Sachs Investments Partners (“**GSIP**”) in New York where she managed a portfolio of private growth investments for GSIP. Sabrina is a CFA charterholder.

**Joseph Thompson, COO:** Joseph brings 22 years of experience leading organizations at Amazon and Procter & Gamble. Previously, Joseph was General Manager of Retail at Amazon where he managed a multi-billion dollar division. Prior to Amazon, Joseph had a 14-year career at Procter & Gamble with assignments in Cincinnati, Boston, Shanghai, and Toronto.

**Arshil Abdulla, CTO:** Previously, Arshil was CEO, CTO, and founder of LD Vision Group Inc. (“**LD Vision Group**”), a leading online retailer of contact lenses built on a custom tech platform that was unparalleled in the eyecare industry

in terms of automation and efficiency. Arshil has 18 years of experience with building technology platforms in the optical industry. He manages all facets of technology and project development across the organization.

**Rob Long, CMO:** Rob is a passionate growth marketer, bringing 13 years of experience building innovative direct-to-consumer brands. Rob comes from Dyson Canada where he built and led their direct-to-consumer business. Previously, he was a key member of the marketing leadership team of Clearly Contacts Ltd. ("**Clearly**"), from their launch of eyeglasses in 2008 to the Essilor acquisition in 2014.

#### **IMPACT OF COVID-19**

The COVID-19 pandemic has caused disruption to economies and communities across the U.S. and Canada in 2020. In the interest of public health, public authorities across both the U.S. and Canada issued stay-at-home orders, promoted social distancing and closed physical stores and places of business deemed non-essential. Our business is impacted by COVID-19 on multiple fronts. See "The Business of KITS – Impact of COVID-19".

## OUR OFFERING

<b>Issuer:</b>	Kits Eyecare Ltd.
<b>Offering:</b>	6,470,588 Common Shares (treasury offering) (7,441,176 Common Shares offered assuming the Over-Allotment Option is exercised in full).
<b>Offering Price:</b>	\$8.50 per Common Share.
<b>Offering Size:</b>	\$55,000,000.
<b>Use of Proceeds:</b>	We intend to use the net proceeds that we will receive from the Offering primarily towards expanding our optical lab and manufacturing capabilities, growing our brand, increasing our marketing efforts, repaying outstanding indebtedness, working capital and general corporate purposes. See "Use of Proceeds".
<b>Listing:</b>	We have applied to list the Common Shares under the symbol "KITS" on the TSX. Listing is subject to the approval of the TSX in accordance with its original listing requirements. The TSX has not conditionally approved the listing application and there is no assurance that it will do so. Closing (as defined herein) is conditional on the Common Shares being approved for listing on the TSX. See "Plan of Distribution".
<b>Agents' Fee:</b>	The Agents will receive, on the Closing Date and, if applicable, the date of closing of the exercise of the Over-Allotment Option, an Agents' Fee equal to 6.0% of the gross proceeds realized from the sale of Common Shares issued on such Closing Date. The Company has also agreed to pay to the Lead Agent a Corporate Finance Fee of \$250,000, of which \$125,000 shall be payable in cash and \$125,000 will be payable by the issuance of 14,706 Corporate Finance Fee Shares at the Offering Price. This Prospectus qualifies the distribution of the Corporate Finance Fee Shares. See "Plan of Distribution".
<b>Over-Allotment Option:</b>	The Principal Shareholders have granted to the Agents an option, exercisable in whole or in part, at any time for a period of 30 days after the Closing Date, to purchase from the Principal Shareholders up to an additional 15% of the aggregate number of Common Shares issued under the Offering at the Offering Price solely to cover over-allotments, if any, and for market stabilization purposes. Accordingly, the Company will not receive any proceeds from the exercise of the Over-Allotment Option, all of which will be paid to the Principal Shareholders. See "Plan of Distribution".
<b>Shares Outstanding:</b>	Upon completion of the Offering and the Pre-Closing Capital Changes, an aggregate of 31,000,003 Common Shares.
<b>Shares held by the Principal Shareholders Following Closing:</b>	Upon completion of the Offering and the Pre-Closing Capital Changes, the Principal Shareholders will, collectively, directly or indirectly own or control, 23,942,801 Common Shares, or approximately 77.2% of the issued and outstanding Common Shares (22,972,213 Common Shares, or approximately 74.1% of the then outstanding Common Shares if the Over-Allotment Option is exercised in full). See "Principal Shareholders", "Description of Share Capital – Pre-Closing Capital Changes", "Plan of Distribution" and "Risk Factors".
<b>Description of Share Capital:</b>	Upon completion of the Offering and the Pre-Closing Capital Changes, our authorized share capital will consist of an unlimited number of Common Shares and an unlimited number of preferred shares. See "Description of Share Capital".
<b>Dividend Policy:</b>	We intend to retain any future earnings to fund the development and growth of our business and do not currently anticipate paying dividends on the Common Shares. Any determination to pay dividends in the future will be at the discretion of our board of directors (" <b>Board</b> ") and will depend on many factors, including, among

others, restrictions in our credit agreements, our financial condition, current and anticipated cash requirements, contractual restrictions and financing agreement covenants, solvency tests imposed by corporate law and other factors that our Board may deem relevant. See "Dividend Policy".

**Lock-Up Arrangements:**

Each of us and our directors and executive officers, and the Principal Shareholders have agreed that he, she or it will not, directly or indirectly, without the prior written consent of the Agents, such consent not to be unreasonably withheld, issue, offer or sell or grant any option, warrant or other right to purchase or agree to issue or sell or otherwise lend, transfer, assign or dispose of any of our equity securities, or other securities convertible or exchangeable into or otherwise exercisable into our equity securities or agree or publicly announce any intention to do any of the foregoing for a period commencing on the date hereof and ending 180 days after the Closing Date, subject to certain limited exceptions, or the issuance of our securities pursuant to or in connection with our equity incentive compensation plans. Holders of 100% of our issued and outstanding shares prior to the completion of the Offering will be subject to these lock-up arrangements. See "Plan of Distribution – Lock-Up Arrangements".

**Risk Factors:**

An investment in Common Shares is subject to a number of risk factors that should be carefully considered by prospective investors. These risks include those discussed under "Risk Factors" herein.

**Investors should read this entire prospectus and consult with their professional advisors to assess an investment in the Common Shares. See "Risk Factors".**

## SELECTED PRO FORMA AND CONSOLIDATED FINANCIAL INFORMATION AND OTHER DATA

The following presents selected historical pro forma and consolidated financial information and other data as of the dates and for the periods indicated. For the purpose of discussing our financial results, we refer to ourselves as the "Successor" in the periods following the acquisition of LD Vision Group (the "Acquisition") and "Predecessor" refers to LD Vision Group results for periods preceding the Acquisition. The selected Successor's and Predecessor's historical financial information as at and for the fiscal years ended December 31, 2019 and December 31, 2018, respectively, has been derived from our consolidated financial statements, in each case prepared in accordance with IFRS and included elsewhere in this prospectus which have been audited by our auditors, MNP LLP. The selected consolidated financial information set out below as at and for each of the nine months ended September 30, 2020 and 2019 has been derived from our unaudited condensed interim consolidated financial statements prepared in accordance with IFRS applicable to the preparation of interim financial statements appearing elsewhere in this prospectus. The Pro Forma Combined Year Ended December 31, 2019 includes the 94 day Predecessor 2019 period from January 1, 2019 through April 4, 2019 and the 271 day Successor 2019 period from April 5, 2019 through December 31, 2019. For the purpose of performing a comparison to the fiscal year ended December 31, 2018 and the nine-month periods ended September 30, 2019, we have prepared Unaudited Pro Forma Combined Supplemental Financial Information for the nine-month period ended September 30, 2019, and the fiscal year ended December 31, 2019 which gives effect to the Acquisition as if it had occurred on January 1, 2019, and which we refer to as the Unaudited Pro Forma Combined periods. The Unaudited Pro Forma Combined periods discussed do not purport to represent what our actual consolidated results of operations would have been had the Acquisition actually occurred on January 1, 2019, nor is it necessarily indicative of future consolidated results of operations. The Unaudited Pro Forma Combined periods are being discussed herein for informational purposes only and do not reflect any operating efficiencies or potential cost savings that may result from the consolidation of operations. See Page F-58 of this prospectus for the aforementioned unaudited pro forma financial statements.

Prospective investors should review this information in conjunction with the unaudited consolidated financial statements and the unaudited pro forma condensed consolidated financial statements, including the notes thereto, as well as "About this Prospectus", "Non-IFRS Measures and Industry Metrics", "Presentation of Financial Information", "Management's Discussion and Analysis of Financial Condition and Results of Operations", "Use of Proceeds", "Consolidated Capitalization", "Description of Material Indebtedness" and "Description of Share Capital" included elsewhere in this prospectus.

	Successor			Unaudited Pro Forma Combined Year Ended December 31, 2019 (b)	Unaudited Pro Forma Combined Nine Months Ended September 30, 2019 (b)
	Nine Months ended September 30, 2020 <i>(unaudited)</i>	Nine Months ended September 30, 2019 <i>(unaudited)</i>	Year ended December 31, 2019 (a) <i>(audited)</i>		
<b>CAD \$000s, unless otherwise noted</b>					
<b>Consolidated statements of operations and comprehensive income:</b>					
Revenue.....	\$54,934	\$24,224	\$36,897	\$49,946	\$37,273
Cost of Sales .....	38,282	17,354	26,085	36,281	27,550
Gross profit.....	16,652	6,870	10,812	13,665	9,723
Fulfillment.....	5,374	1,722	2,717	3,456	2,461
Marketing.....	5,370	2,112	3,168	3,898	2,842
General and administrative.....	1,873	748	1,581	1,977	1,147
Depreciation and amortization .....	1,504	850	1,327	1,786	1,309
Operating income (loss).....	2,531	1,438	2,019	2,548	1,964
Finance costs, net .....	2,055	1,212	1,821	2,433	1,824
Other expenses (income).....	284	70	108	146	108
Income (loss) before income taxes .....	192	156	90	(31)	32
Income tax expense (recovery) .....	559	24	37	100	87
Net income (loss).....	(367)	132	53	\$ (131)	\$ (55)
Other comprehensive income (loss) .....	803	(319)	(1,302)	(1,333)	(35)
Comprehensive income (loss).....	\$ 436	\$ (187)	\$ (1,249)	\$ (1,464)	\$ (405)
<b>Other Financial Data: Non-IFRS measures (c) (unaudited):</b>					
EBITDA .....	\$ 3,751	\$ 2,218	\$ 3,238	\$ 4,188	\$ 3,165
Adjusted EBITDA.....	\$ 4,768	\$ 2,487	\$ 3,643	\$ 4,326	\$ 3,165

	Successor			Unaudited Pro Forma Combined Year Ended December 31, 2019 (b)	Unaudited Pro Forma Combined Nine Months Ended September 30, 2019 (b)
	Nine Months ended September 30, 2020 (unaudited)	Nine Months ended September 30, 2019 (unaudited)	Year ended December 31, 2019 (a) (audited)		
<b>CAD \$000s, unless otherwise noted</b>					
Adjusted EBITDA as a percentage of net revenue .....	8.7%	10.3%	9.9%	8.7%	8.5%

	Predecessor	
	Year Ended December 31, 2018 (audited)	Year Ended December 31, 2017 (audited)
<b>CAD \$000s, unless otherwise noted</b>		
<b>Consolidated statements of operations and comprehensive income:</b>		
Revenue.....	\$47,620	\$42,951
Cost of Sales .....	34,423	31,197
Gross profit.....	13,197	11,754
Fulfillment.....	2,586	1,779
Marketing .....	2,188	1,887
General and administrative.....	1,697	815
Depreciation and amortization.....	54	93
Operating income (loss).....	6,672	7,180
Finance (income) costs, net.....	(24)	(24)
Other expenses .....	30	-
Income (loss) before income taxes.....	6,666	7,204
Income tax expense .....	2,222	1,848
Net income (loss).....	\$4,444	\$5,356
Other comprehensive income (loss).....	170	(195)
Comprehensive income (loss).....	\$ 4,614	\$ 5,161
<b>Other Financial Data: Non-IFRS measures (c) (unaudited):</b>		
EBITDA .....	\$6,696	\$7,273
Adjusted EBITDA.....	\$6,696	\$7,273
Adjusted EBITDA as a percentage of net revenue.....	14.1%	16.9%

Notes:

- Prior to April 5, 2019 KITS had no operations and beginning April 5, 2019, KITS consolidated the operations of LD Vision Group (subsequently renamed Kits.com Technologies Inc.).
- The pro forma adjustments made give effect to the Acquisition as if it had occurred on January 1, 2019 and are summarized at Page F-58 of this prospectus.
- Refer to "Non-IFRS measures" and "Non-IFRS Measures and E-Commerce Industry Metrics" for details.

	Successor (a)		Predecessor	
	As at September 30, 2020 (unaudited)	As at December 31, 2019 (audited)	As at December 31, 2018 (audited)	As at December 31, 2017 (audited)
<b>CAD \$000s, unless otherwise noted</b>				
<b>Condensed consolidated statements of financial position data:</b>				
Cash .....	\$ 1,826	\$ 3,398	\$ 2,898	\$ 3,086
Current assets .....	8,854	7,205	5,776	5,914
Goodwill and intangible assets .....	44,994	45,065	-	-
Total Assets .....	\$55,520	\$53,382	5,994	\$ 6,106
Current liabilities (excluding current portion of borrowings) .....	\$ 9,782	\$ 7,376	\$ 4,409	\$ 5,135
Borrowings .....	\$21,002	\$23,199	\$ -	-
Total Liabilities .....	\$48,375	\$47,177	\$ 4,409	\$ 5,135
Total Equity .....	\$ 7,145	\$ 6,205	\$ 1,585	\$ 971

Notes:

- Prior to April 5, 2019, KITS had no operations.

	Nine Months ended September 30, 2020	Nine Months ended September 30, 2019	Year ended December 31, 2019 (a)	Unaudited Pro Forma Combined Year Ended December 31, 2019	Unaudited Pro Forma Combined Nine Months Ended September 30, 2019
<b>CAD \$000s, unless otherwise noted</b>					
<b>Reconciliation of Adjusted EBITDA</b>					
Net income / (loss) for the period .....	\$ (367)	\$ 132	\$ 53	\$ (131)	\$ (55)
<i>Add back:</i>					
Income taxes.....	559	24	37	100	87
Finance costs –net .....	2,055	1,212	1,821	2,433	1,824
Depreciation and amortization .....	1,504	850	1,327	1,786	1,309
EBITDA .....	3,751	2,218	3,238	4,188	3,165
<i>Add back:</i>					
Share-based compensation (b) .....	504	-	130	130	-
One-time costs (c).....	513	269	275	8	-
Adjusted EBITDA.....	\$ 4,768	\$ 2,487	\$ 3,643	\$ 4,326	\$ 3,165
Revenue .....	\$54,934	\$24,224	\$36,897	\$49,946	\$37,273
Adjusted EBITDA as a percentage of net revenue.	8.7%	10.3%	9.9%	8.7%	8.5%

	<b>Predecessor</b>	
	Year Ended December 31, 2018	Year Ended December 31, 2017
<b>CAD \$000s, unless otherwise noted</b>		
<b>Reconciliation of Adjusted EBITDA</b>		
Net income / (loss) for the period .....	\$ 4,444	\$ 5,356
<i>Add back:</i>		
Income taxes.....	2,222	1,848
Finance income –net.....	(24)	(24)
Depreciation and amortization .....	54	93
EBITDA .....	6,696	7,273
<i>Add back:</i>		
Share-based compensation (b) .....	-	-
One-time costs (c).....	-	-
Adjusted EBITDA.....	\$ 6,696	\$ 7,273
Revenue.....	\$47,620	\$42,951
Adjusted EBITDA as a percentage of net revenue.	14.1%	16.9%

Notes

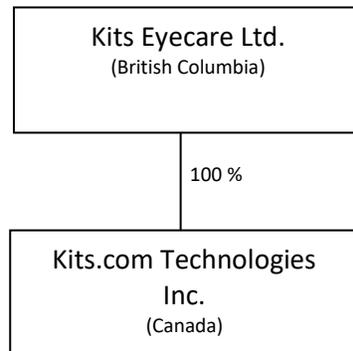
- (a) Prior to April 5, 2019, KITS had no operations and beginning April 5, 2019, KITS consolidated the operations of LD Vision Group (subsequently renamed Kits.com Technologies Inc.).
- (b) Represents non-cash share-based compensation expense associated with stock options of the Company (the "Options") that vested in the period.
- (c) In connection with the Acquisition and the filing of this prospectus, the Company incurred expenses related to professional fees, consulting, legal, and accounting that would otherwise not have been incurred and were directly related to these two matters. These fees are not indicative of the Company's ongoing costs and we expect they will discontinue following the completion of this Offering.

## CORPORATE STRUCTURE

Our company was founded in Vancouver, Canada, and incorporated on October 15, 2018 as Kits Eyecare Ltd. under the *Business Corporations Act* (British Columbia). On April 5, 2019, we acquired LD Vision Group for a combination of cash and stock to accelerate our business plan. LD Vision Group was incorporated under the *Canada Business Corporations Act* on December 30, 2002. On May 30, 2019, LD Vision Group changed its name to Kits.com Technologies Inc. ("KCTI").

Our principal and registered office is located at Suite 1020, 510 Seymour Street, Vancouver, British Columbia, Canada V6B 3J5 and our telephone number is 1-833-ITS-KITS. Our corporate website address is [www.KITS.com](http://www.KITS.com). Information contained on, or accessible through, this website or our other websites is not a part of this prospectus and the inclusion of our website address in this prospectus is an inactive textual reference.

The following chart identifies our wholly-owned subsidiaries (including jurisdiction of formation or incorporation):



## THE BUSINESS OF KITS

### OVERVIEW: OUR PURPOSE AND WHO WE ARE

*We are striving to become the most trusted and loved online destination for eyes everywhere. We believe in eyecare that leads and inspires. High quality and convenience are the values that underlie the customer experience that we provide. We have built a complete online eyecare platform that offers vision testing, prescription renewals, trusted products, exceptional service, and price leadership, making it simple to shop with us again.*

KITS is a rapidly growing digital eyecare platform for eyes everywhere. We are also:

- A consumer company that enables customers to easily find eyecare they love and have it quickly and conveniently delivered to them, with the ability to subscribe to our Autoship subscription program for contact lenses;
- A healthcare company that provides ultimate customer convenience by providing access to online virtual fittings, pupillary distance measurements, and online vision tests.
- A technology-forward, innovation-focused company that uses advanced materials in our silicone hydrogel KITS-branded contact lenses and offers glasses lens treatments, such as our KITS ScreenTime blue-light blocking lens;
- An automated and vertically integrated manufacturing company that produces customized prescriptions with precision for our customers at category-leading prices; and prepares and ships each customer's order with speed and care; and
- A design company that creates beautiful glasses for all faces.

Above all else, we are obsessed with taking great care of our customers' eyes. Our ambition is to become the world's largest and most trusted brand in eyecare – KITS has created extraordinary eyecare because we believe that eyes are anything but ordinary.

KITS was founded in October 2018 to bring beautiful and complete vision care to everyone, unlocking convenience and choice. We are obsessed with eyes – our team has a proven track record of executing in the eyewear industry and know what it takes to build a leading eyecare platform. We offer our customers access to a vast selection of contact lenses and eyeglass frames, including our own exclusive designs, online through our network of websites. We operate

a network of optical e-commerce websites, including KITS.com, KITS.ca, OptiContacts.com and ContactsExpress.ca. The latter two of which we acquired in April 2019 and have been in operation since 2002; in Q1 2020, we began consolidating our websites to KITS.com. Our efficient platform enables us to deliver personalized products with incredible care. We aim to delight our customers with our extensive offering of trusted, high quality brands and our own beautifully designed KITS glasses, competitive prices, the latest eyewear innovations, an unrelenting focus on earning our customers' lifelong trust, a convenient online shopping experience, and fast and reliable delivery options – including our convenient newly launched Autoship subscription program for contact lenses. We strive to offer a bespoke experience to each of our customers and to enable them to express their identity through our products.

Our expertise and historical optical industry relationships have enabled us to establish partnerships with leading healthcare companies and design houses to offer the best in contact lenses and, more recently, glasses. In addition, we offer our own KITS branded products. Our business has been driven by the loyalty of our customers. We have delivered over 8.7 million boxes of contact lenses since 2002 and over 65,000 pairs of glasses since we launched them for sale in early 2020. Returning customers drove 69% of our Fiscal 2019 revenues. We are constantly pursuing cutting-edge technologies to enable the best customer experience, including access to virtual try-on for glasses, an integrated online vision test, and a pupillary distance measurement tool, all of which were incorporated into our sites in 2020. In February 2020, we began our Autoship subscription program, which enables customers to have repeat orders automatically shipped to them at set intervals. The Autoship subscription option for contact lenses is a natural fit for contact lenses and makes reordering convenient and easy; as we exited the third quarter of 2020, over 10% of our contact lens customers opted-in to Autoship at checkout and our goal is to grow this to over 25%. We estimate the lifetime value of customers in our Autoship program is 2x higher than our average non-subscription customer.

We know that we only get one chance to show up for the first time. Through our websites and mobile platform, we offer our customers access to more than 40,000 contact lens products and over 500 styles of glasses. This has resonated with our customers and our consumer rankings continue to climb – our overall customer satisfaction rating is 94% based on over 100,000 customer reviews<sup>22</sup>. To complement our Autoship subscription program for contact lenses, within the past year, we have added a fully automated optical lab for glasses as well as distribution facilities to create a category-leading customer experience. Our exceptional customer service, high quality products, offerings incorporating the latest eyecare innovations and fast shipping times facilitate a growing user subscription base using our Autoship program from which we can build revenue predictability and grow our margins.

Our unique multi-brand strategy, technology-based tools, long-term management approach and exceptional customer service have contributed to strong and consistent financial performance. We have grown revenue by 68% when comparing Q3 2020 to Q3 2019, to a Run-Rate Revenue of \$81 million, with approximately 80% of revenue being generated in the United States and approximately 20% in Canada<sup>23</sup>. We expect to complete 2020 with full-year revenue of approximately \$74 million. See "Forward-Looking Information" and "Risk Factors". This robust growth is supported by recurring orders – 69% of Fiscal 2019 revenue was from repeat customers. Our vertically integrated model and high degree of automation drive a low-cost model that yielded strong Adjusted EBITDA Margin of 10% and net income of approximately \$53,000 in Fiscal 2019<sup>24</sup>. For a discussion of Run-Rate Revenue and Adjusted EBITDA and Adjusted EBITDA Margin, which are measures that are not presented in accordance with IFRS, and a reconciliation to the most directly comparable financial measure calculated and presented in accordance with IFRS, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Non-IFRS Measures" and "Selected Pro Forma and Consolidated Financial Information and Data".

We believe that KITS is in the early days of its growth trajectory and we have several strategies to grow revenue and gross margin. We attract customers with our strong reputation of convenience, category-leading prices, and customer service, and subsequently encourage those customers to migrate to our KITS-branded offerings in contact lenses and glasses, which yield higher margins. Our long-term focus is to increase revenue by increasing the number of customers we serve and increasing the AOV from those customers from approximately \$143<sup>25</sup> to \$170. Continued expansion of our KITS brand and the increasing adoption of our Autoship program for contact lenses will help us to

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<sup>22</sup> Based on ShopperApproved online customer reviews for OptiContacts.com and ContactsExpress.ca since inception as of November 9, 2020.

<sup>23</sup> Based on KITS consolidated revenue for Fiscal 2019. For the nine months ended September 30, 2020, approximately 82% of revenue was generated in the United States and approximately 18% in Canada.

<sup>24</sup> Based on KITS consolidated performance for Fiscal 2019.

<sup>25</sup> Based on KITS consolidated performance for Fiscal 2019.

acquire and retain those new customers more efficiently. We expect to continue expanding AOV and gross margin by increasing our product mix to include:

- a higher proportion of glasses, which, at full-scale production, we estimate can generate approximately two times the gross margin of contact lenses;
- a higher proportion of daily disposable contact lenses, which can be sold at a higher AOV than weekly and monthly contact lenses; and
- more KITS-branded contact lenses and glasses.

Moreover, we will leverage our technology-forward business model to drive operational efficiencies as we scale. Further, building on our management team’s track record of value-enhancing acquisitions, KITS will look to new opportunities to expand and reach new geographies or adjacent markets.

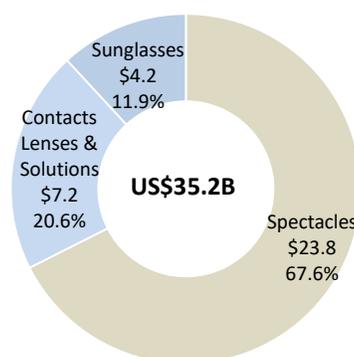
## OUR MARKET OPPORTUNITY

The retail eyewear market in North America, defined by Euromonitor to include spectacles, sunglasses, and contact lenses & contact solutions in the U.S. and Canada, is forecasted to generate sales of approximately US\$35.2 billion in 2020, with U.S. sales of US\$31.5 billion and Canadian sales of US\$3.7 billion. Given the medical, non-discretionary and recurring nature of eyewear purchases, from 2008 to 2019 the North American retail eyewear market exhibited stable growth with a CAGR of 2.5%, with only modest declines during the 2008 to 2009 recession, according to Euromonitor. Given the COVID-19 pandemic and resulting government actions including, but not limited to, stay-in-place orders and mandated store closures, as well as economic uncertainty, the North American retail eyewear market is expected to contract in 2020, before returning to projected growth with sales reaching approximately US\$40.8 billion in 2025, representing a CAGR of 3.0% from 2020 to 2025. COVID-19 has also resulted in a material increase in the share of online sales within the North American retail eyewear market, as fewer consumers are making physical trips to brick-and-mortar stores, and despite the contraction in the overall retail eyewear market in 2020, the size of the online retail eyewear market is expected to increase in 2020.

**North American Retail Eyewear Market Size Forecasts (US\$B)<sup>1</sup>**



**2020E North American Retail Eyewear Market Size by Product<sup>1</sup>**



**We expect multiple key underlying demand factors and tailwinds to continue to contribute to the future growth of the eyecare industry:**

- *Medical necessity:* According to MESVision, 74% of the U.S. population requires some form of vision correction, while the Canadian Association of Optometrists estimates that in 2018, more than three out of four Canadians reported vision related issues. Generally, the need for vision correction results from one of a number of conditions including myopia, hyperopia, presbyopia, astigmatism, and UV damage. Eyewear products are a medical necessity and play an important role in an individual’s health and wellness. As a result, we believe consumers prioritize expenditure on eyewear, compared with expenditure on discretionary items. In addition, rising healthcare costs

<sup>26</sup> Source: Euromonitor International Limited, Personal Accessories 2021 edition, published June 2020, includes the initial impact of COVID.

and increased awareness around preventative health and wellness measures, are also resulting in increased consumer spending on eyewear. According to the Canadian Association of Optometrists, vision loss has the highest direct healthcare cost of any other disease. As consumers consider the importance of vision correction and the potential healthcare costs related to vision loss, we expect them to continue to prioritize spending on eyewear.

- *Increasing prevalence of vision care insurance:* With vision correction emerging as a medical necessity, a large proportion of the U.S. population is enrolling in vision care insurance to benefit from coverage for routine eye exams and other procedures, as well as reduced out-of-pocket expenses for eyewear products. We estimate that the four largest vision care insurance providers in the U.S. currently cover more than 190 million users. Based on information from National Association for Vision Care Plans, more than 87% of Americans with a vision benefit intend to get an eye exam in the next 12 months, compared with 67% for those without a vision benefit, while 67% of individuals with benefits are likely to purchase new eyewear after an eye exam, compared with 34% for those without a vision benefit. Given the current prevalence towards vision care insurance, and higher likelihood for individuals with vision care insurance to get eye exams and purchase eyewear, we expect rising vision care insurance to be a tailwind for demand for eyewear products.
- *Ageing population:* According to World Bank, life expectancy at birth in the U.S. has increased from 70.0 years in 1968 to 78.5 years in 2018, and in Canada has increased from 72.4 years in 1968 to 81.9 years in 2018. Higher life expectancy is resulting in an ageing population which is likely to result in greater demand for eyecare, as there is increased eyesight deterioration as a person ages. As per the Canadian Association of Optometrists, after the age of 40, cases of vision loss double every decade and triple at age 75. With ageing population trends across both the U.S. and Canada, we expect the number of users and demand for eyecare to increase.
- *Increased digital consumption and screen time:* With an increasingly digital screen based lifestyle, consumers across all age categories are consuming a quantity of content through devices such mobile phones, tablets, computers and televisions. According to Zenith Media, in 2018 Americans spent an average of 8.7 hours daily on digital devices, which includes television and Internet. Based on Eyezen Ipsos data, 72% of Canadian adults aged between 18-39 years old use at least three electronic devices per day, and 90% of these adults reported at least one eye-related problem linked to digital devices. COVID-19 is also likely to result in an increasing trend of work-from-home and virtual learning, which will result in a higher time spent in front of screens. As consumers spend more time in front of screens, there is expected to be an increased strain and deterioration on eyesight, resulting in higher demand for eyecare.
- *Consistent repurchase cycle:* According to a 2018 report from ECP University, Americans with annual income greater than US\$60,000 buy new glasses every 1.7 years. The frequent repurchase cycle is a result of the medical nature of eyewear products, as consumers regularly get a prescription check or renewal to confirm their current eye prescription, and such prescription checks and renewals are often accompanied by the purchase of eyewear products. Additionally, the consumable nature of contact lenses requires them to be replaced frequently in order to maintain a user's eye health. Based on The Vision Council, more than 45% of the U.S. adult population received an eye exam in 2016, which represents more than 115 million eye exams. The large number of eye exams contributes to the industry's stability and results in high frequency of customer purchases.
- *Innovation in eyecare:* Advances in ophthalmic techniques have led to the development of eyewear products that use new materials, such as titanium frames and daily disposable contact lenses. These products are in demand by customers who want added convenience and comfort. Based on Euromonitor, daily disposable contact lenses represented 46% or US\$2.7 billion of the total North American contact lens market in 2019, up from 12.0% in 2008. The market size of daily disposable contact lenses is expected to grow to US\$3.4 billion in 2025, which is projected to represent 55% of the total North American contact lens market.<sup>27</sup> The demand for daily disposable contact lenses have also led to an increase in the contacts subscription model, in particular for online based players, which offer convenient monthly shipping of contacts through a "click-and-forget" based subscription model. Additionally, as consumers spend more time in front of digital screens, there is increased demand for innovative products such as blue-light filtering glasses, which reduce strain on eyes. As consumer awareness and health concerns increase

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<sup>27</sup> Source: Euromonitor International Limited, Personal Accessories 2021 edition, published June 2020, includes the initial impact of COVID.

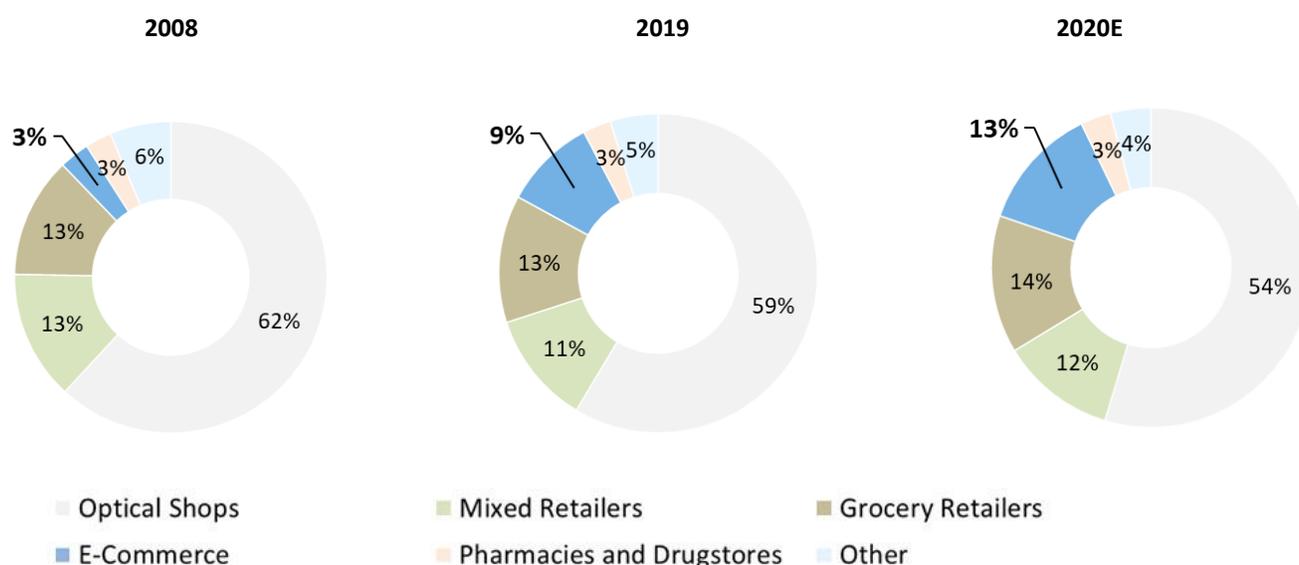
around atmospheric ultraviolet radiations, there is also higher demand for photochromic lens, which darken when exposed to ultraviolet radiations.

- *Eyewear as a fashion accessory:* Historically, eyewear has been used and perceived primarily as a medical device to correct vision. However, in recent times, eyewear has become a lifestyle and fashion accessory, driven by changes in style, more color options, thinner glass lenses, increased lifestyle oriented marketing and the emergence of designer branded frames. As a result, a higher number of consumers are now willing to replace their glasses for a new pair on a more regular basis, or purchase extra pairs of eyeglasses. As per The Vision Council, more than 37% people in the U.S. regularly use two or more pairs of eyeglasses, and more than 51% regularly use two or more pairs of sunglasses.

*Our Market Opportunity: Online Retailers Rapidly Gaining Market Share in Fragmented Retail Eyewear Market*

The retail eyewear market in North America is highly fragmented, and we estimate that approximately half of the market share is currently held by independent retailers. Over time, independent retailers, ophthalmologists and optometrists in private practice have lost share to scaled national optical retail chains as well as to other scaled market participants, while simultaneously online sales have continued to grow faster than the overall market, with the market share of brick-and-mortar competitors shifting to online. We believe that the online channel also remains highly fragmented with numerous competitors, including many small independent businesses.

**Eyewear Sales by Channel in North America<sup>28</sup>**

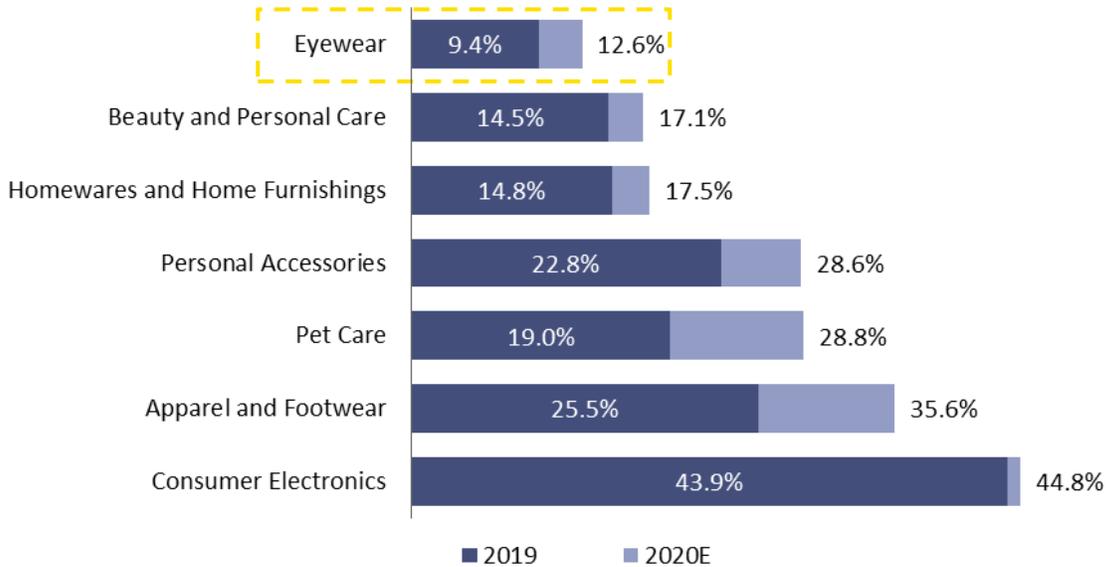


According to Euromonitor, online sales penetration within the North American eyewear market has grown from 3.1% in 2008 to 9.4% in 2019, with U.S. penetration of 9.9% and Canadian penetration of 4.9% in 2019. Online sales in the retail eyewear market have grown in each year from 2008 to 2019, reaching US\$3.8 billion in 2019 and representing a 13.2% CAGR over the period. Overall online sales within the retail eyewear market are relatively underpenetrated, when compared with other retail categories, based on Euromonitor.<sup>29</sup>

<sup>28</sup> Mixed Retailers include department stores, variety stores, and warehouse clubs. Grocery Retailers include convenience stores, hypermarkets and supermarkets. Other includes leisure and personal goods specialist retailers, apparel and footwear specialist retailers, direct selling and homeshopping. Source: Euromonitor International Limited, Personal Accessories 2021 edition, published June 2020, includes the initial impact of COVID.

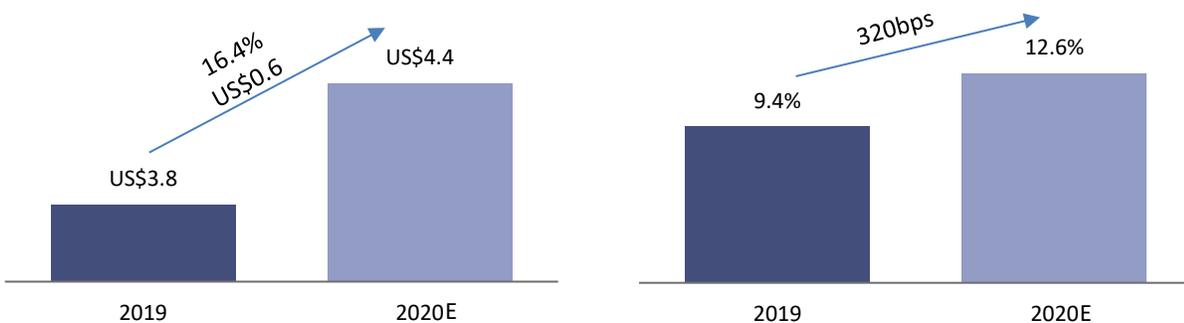
<sup>29</sup> Source: Euromonitor International Limited, Personal Accessories 2021 edition, published June 2020, includes the initial impact of COVID.

### Share of Online Sales by Industry in North America<sup>30</sup>



Euromonitor projects that despite a decline in the overall North American retail eyewear market in 2020 as a result of the COVID-19 pandemic, growth in the online channel will continue in 2020. The share of North American eyewear market online sales is forecasted to accelerate and expand by approximately 320 bps to 12.6% in 2020, with U.S. penetration of 13.2% and Canadian penetration of 7.2%, an increase of US\$0.6 billion to US\$ 4.4 billion. Within the combined retail eyewear market in 2020, online penetration is expected to be 10.0% for spectacles, 8.6% for sunglasses, and 23.2% for contact lenses & contact solutions, according to Euromonitor.

### Projected North American Retail Eyewear Market Online Sales (US\$B) and Online Penetration<sup>31</sup>



In 2020 alone, \$0.6 billion in optical sales<sup>32</sup> are anticipated to move from in-store to online in North America.

Based on Euromonitor, daily disposable contact lenses represented 46% or US\$2.7 billion, of the total North American contact lens market in 2019, up from 12.0% in 2008. The market size of daily disposable contact lenses is expected to grow to US\$3.4 billion in 2025, which is projected to represent 55% of the total North American contact lens market.

<sup>30</sup> Source: Euromonitor International Limited, Personal Accessories 2021 edition, published June 2020, includes the initial impact of COVID.

<sup>31</sup> Source: Euromonitor International Limited, Personal Accessories 2021 edition, published June 2020, includes the initial impact of COVID.

<sup>32</sup> Source: Euromonitor International Limited, Personal Accessories 2021 edition, published June 2020, includes the initial impact of COVID.

We anticipate the online channel growth to benefit from trends including:

- Convenience of anytime, anywhere shopping offered by the online channel;
- Suitability of online channel for contact lenses subscriptions;
- Ability to easily browse through full assortment of products online;
- Development of virtual try-on features for glasses;
- Improved capabilities of online eye exams and a more supportive regulatory environment, including the U.S. FDA's temporary policy, issued in April 2020, for remote ophthalmic assessment and monitoring devices; and
- Increasing comfort with and adoption of telehealth alternatives to in-person medical visits.

We also expect the retail eyewear online channel to benefit further from purchasing trends seen during COVID-19 as evidenced across other retail industries, as fewer consumers are making physical trips to brick-and-mortar stores and increasingly turning to making more purchases online.

## THE KITS DIFFERENCE: WHAT SETS US APART

KITS is changing the way consumers shop for eyecare. We have built our platform by understanding what customers want and delivering it to them in one simple, seamless experience. We differentiate ourselves via our wide variety of high quality designs and offerings (including our own KITS brand), competitive prices, commitment to innovation in eyecare, unrivalled customer service rooted in our passion for eyecare, and our complete and convenient online eyecare solution supported by vertically integrated model.

- **Extensive offering of trusted, high quality brands and our own beautiful designs.**
  - We make it easy for customers by supporting our all-in-one experience with a wide variety of leading brands as well as our own KITS brand, which incorporates our in-house designs that draw inspiration from the people, culture, and environment around us. We have built a brand that, while young, resonates with our customers' ideals. Our team's depth of relationships in the eyecare industry has enabled us to offer more than 500 styles, 50 brands and over 100,000 individual SKUs, representing the best and most desired products in glasses, sunglasses, and contact lenses. For our handmade KITS frames, we are partnered with raw material suppliers of the finest Italian acetate and metal, and the best in European hinge design. For contact lenses, we are partnered with leading manufacturers to offer KITS branded solutions at compelling prices, while also incorporating the latest technology and innovation.
- **Incredible value from our competitive prices, supported by our lowest price guarantee on contact lenses.**
  - We take the stress out of shopping for eyecare and allow customers to focus on finding their perfect fit with our category-leading prices and our lowest price guarantee. Our retail price for a pair of standard KITS prescription eye glasses (frames and lenses) is US\$69<sup>33</sup>, which is materially lower than the average retail price of US\$351 for eye glasses (frames and lenses) sold in the U.S. in 2019, based on Vison Service Plan Global data<sup>34</sup>. Our convenient Autoship subscription program for contact lenses also allows us to give customers our best pricing and keep them as a satisfied KITS customer for longer. Lastly, we offer our KITS-branded silicone hydrogel technology contact lenses at a compelling value relative to branded comparables<sup>35</sup>.
- **Absolute commitment to the latest in eyecare technology and innovation in our product offerings.**
  - We believe that our customers want and deserve the best and latest in technology and innovation – we give them the best so that they can be their best. For example, KITS-branded contacts employ the latest silicone hydrogel technology and all of our glasses are available with the latest lens treatment innovations, including KITS ScreenTime blue-light blocking lenses. Our commitment to innovation extends to the environment as well: we are partnered with a team in Patagonia to recycle our manufacturing waste (the excess cuttings from our lens machines) into new frames.
- **Personalized customer care based on our passion for eyecare and service.**

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<sup>33</sup> Based on the price for standard KITS brand eyeglasses as of November 10, 2020.

<sup>34</sup> Average retail price for a pair of prescription eye glasses without insurance in 2019, based on Vision Service Plan Global.

<sup>35</sup> Approximately 30% less at \$11.99/box compared to leading daily modality Acuvue product on KITS.com

- We have created trust through our unrelenting focus on serving our customers and believe that this philosophy stands in stark contrast to the experience most customers currently face when they shop for eyecare. Our highly trained customer service team takes great pride in providing personalized and knowledgeable service to our customers through their comprehensive understanding of vision care. We regularly exceed our customers' expectations, and this passion for service is demonstrated by our 96% product satisfaction rating from customers.
- **Complete eyecare solution focused on the customer experience, from the convenience of home.**
  - We strive to deliver the frictionless end-to-end eyecare shopping experience customers desire by making it simple and convenient to shop with us. Our web platform includes effortless virtual try-on, pupillary distance measurement, and the latest in online vision testing, enabling our customers a convenient way to access licensed optometrists and ophthalmologists to renew prescriptions online. Our vertically integrated model, including our fully automated in-house optical lab for glasses (which can produce a finished pair of glasses in as little as ten minutes) and distribution centre, enables us to provide fast, reliable delivery to our customers with a guarantee that orders will be 100% accurate and free of defects.

Our control over the branding, design and distribution of our in-house products allows us to deliver the most value to our customers – namely, a compelling balance of high quality and beautiful eyecare at great prices. We are focused on investing in our customers' experience, continually improving on value, selection and convenience. We support this with an operation that is capital efficient, vertically integrated, and automated for scale. These principles work together as a continuum, allowing KITS to grow rapidly and profitably, and offer the best eyecare experience in the industry.

## OUR STRENGTHS

We believe that we are changing the way people shop for eyecare by transforming what has traditionally been a clinical, confusing, expensive, multi-visit transaction into a seamless, affordable, enjoyable and convenient experience.

- **Core brand mission of striving to constantly exceed customers' expectations.**
  - *Relentless customer focus.* We are committed to providing the best possible shopping experience to our customers. We have designed our shopping experience to make finding and buying eyecare convenient and easy. We provide affordable prices, beautifully designed KITS glasses, customizable products, the latest eyewear innovations, convenient automatic reordering, and fast, reliable delivery. This is all reinforced by our lowest price guarantee. We are a top-ranked eyecare provider with an average customer review rating of 94%<sup>36</sup>.
  - *Delighting our customers.* We cherish each interaction with our customers and welcome the opportunity to make them lifelong customers. Some of the tools we use to surprise and delight our customers are our lowest price guarantee, guarantee of orders to be 100% accurate and free of defects, and the addition of surprise gifts into our customers' order or on checkout.
- **A complete online eyecare platform.**
  - *Contact lenses.* We are partnered with leading contact lens manufacturers to offer all the major brands of contact lenses and KITS lenses. Our KITS contacts are advanced technology, silicone hydrogel soft lenses that offer irresistible comfort and high-quality at an incredible price point.
  - *Glasses.* Historically, customers have had to choose between contacts or glasses. Well, why not both? We make it easy and affordable to acquire both by offering quality, in-house designed KITS frames and a wide assortment of other popular leading brands, enabling our customers to find their ideal frames. We also offer the latest lens treatments, including innovations such as our KITS ScreenTime blue-light blocking lens.
  - *Virtual try-on and pupillary distance measurement.* Our websites are integrated with virtual try-on capabilities for glasses, which allows customers to easily and quickly test out different frame styles and colours from anywhere. We also provide a tool that enables customers to measure the distance between their pupils online to optimize the parameters of their lenses. We partner with best-in-class

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<sup>36</sup> Based on ShopperApproved online customer reviews for OptiContacts.com and ContactsExpress.ca since inception as of November 9, 2020.

technology partners to offer these capabilities to our customers and are continuously striving to improve our customers' experience through enhancements to these capabilities.

- *Online vision test.* We offer access to the latest in remote vision care, enabling our customers a convenient way to access licensed optometrists and ophthalmologists through online prescription renewals. We believe that the capability to provide online vision testing will be a key differentiator for successful eyecare retailers in the future, as more consumers shift from traditional brick-and-mortar channels towards the online channel. We also expect adoption for online vision tests to increase with a more favorable regulatory environment, such as the U.S. FDA's temporary allowance, issued in April 2020, for remote ophthalmic assessment and monitoring devices. Based on data from selected trials, more than 40% of our online vision test users are converted into paying customers. We partner with best-in-class technology partners to offer these online vision test capabilities to our customers and continuously strive to improve our customers' experience through enhancements to these capabilities.
- **Low customer acquisition cost, high long-term value, and profitable customer retention model.**
  - *Low CAC and marketing spend requirement.* We are able to attract new customers with relatively low levels of marketing spend. In 2019, our new CAC was approximately \$40<sup>37</sup>, repeat CAC was almost \$nil, and our 5-year LTV per repeat customer was approximately \$600<sup>38</sup>. Our low CAC is a result of our relentless focus on making our customers happy, which translates into strong word of mouth advertising as our existing customers who rate us highly on online platforms and recommend us to their network of friends and family.
  - *High return on investment.* As our business model consists of a low overhead cost, our profitability increases as customers return for repeat purchases and subscribe to our Autoship program, embedding a profitable, organic, and recurring revenue stream into our economic model.
  - *Profitable customer retention and expanding purchases over time.* Typically, new customers make initial purchases on our platform attracted by our affordable prices and exceptional customer reviews. We strive to make every new customer's shopping experience delightful and to build trust for the KITS platform through the high quality of our eyecare, delivery and customer service. As we earn the trust from new customers, they typically choose to make repeat orders, subscribe to Autoship programs, and migrate to our KITS-branded offerings in contact lenses and glasses, which tend to have higher profitability margins than third-party brands.
- **Growing base of loyal, repeat customers and traction in newly launched contact lens subscription program.**
  - *Loyal, repeat customers.* In Fiscal 2019<sup>39</sup>, returning customers made up approximately 69% of our revenues, while customers with a history of more than five purchases made up approximately 35% of revenues. The high share of revenue from repeat customers points to strong brand and customer satisfaction, while also driving up customer and profitability economics.

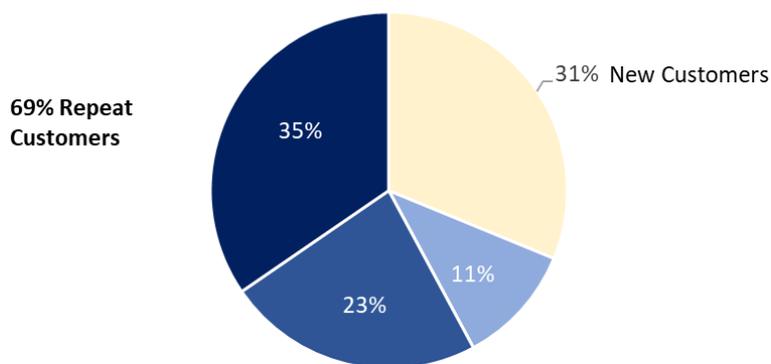
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<sup>37</sup> Calculated as KITS consolidated 2019 total marketing spend divided by new customers in the period.

<sup>38</sup> 5-year total LTV for 2014, 2015, and 2016 cohorts (the latest cohorts with 5 years of data). Each cohort represents over 250,000 customers..

<sup>39</sup> Based on KITS consolidated revenue for Fiscal 2019 pro forma for the acquisition of KITS.com Technologies Inc. on April 5, 2019. See "Selected Pro Forma and Consolidated Financial Information and Other Data".

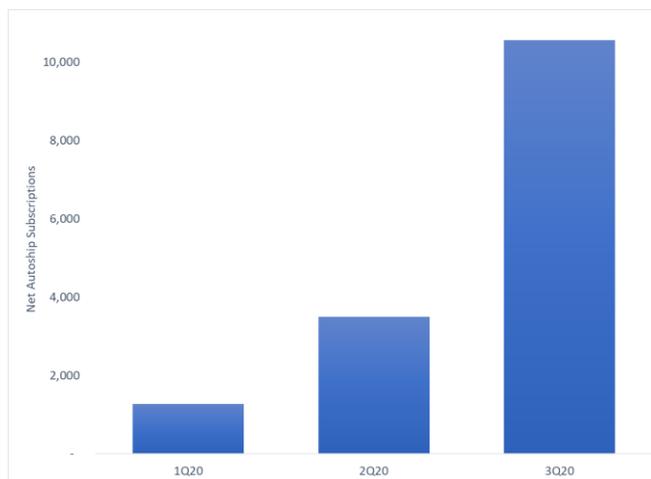
### 2019 Shipped Revenue by Customer Purchase Behaviour



■ New Customer   
 ■ 2nd Purchase   
 ■ 3rd-5th Purchase   
 ■ 6th or Greater Purchase

- *Autoship subscription program for contact lenses.* In February 2020, we launched our Autoship subscription program, which enables customers to have repeat orders automatically shipped to them at set intervals. This program enhances the convenience factor for our customers, while also increasing the share of revenue from repeat customers, and as we exited the third quarter of 2020, over 10% of our contact lens customers opted-in to Autoship at checkout and our goal is to grow this to over 25%. The “Net Autoship Subscriptions” chart below shows our net Autoship subscriptions since inception of our Autoship program.

**Net Autoship Subscriptions<sup>40</sup>**



- **Vertical integration drives efficiency in distribution, enabling quick production and fast delivery, while eliminating waste.**
  - *In-house optical lab for glasses.* Our fully automated optical lab for glasses began operations in November 2019 and we currently have the capacity to produce over 2,000 pairs of glasses each day. We are currently shipping approximately 350 pairs of glasses each day.<sup>41</sup> Our in-house lab provides us with the capability to complete processing of a new glasses order in less than ten minutes and to ship out products to customers on the same day, which has been met with amazement and delight from our customers. We believe that we are amongst a handful of eyecare players in North America to operate a fully automated optical lab. We continue to scale the lab up rapidly and we are currently

<sup>40</sup> Company data, as of October 25, 2020.

<sup>41</sup> Company data, as of October 25, 2020.

in process of expanding the capacity to 10,000 pairs of glasses each day, which we believe will make us one of the largest fully automated optical labs in North America.

- *Strategic distribution locations.* The strategic location of our warehouse in Richmond, Canada, which has capacity to fill up to 3,500 orders daily, and distribution partners across North America enables us to ship cost-efficiently across North America. We are currently shipping approximately 2,500 orders daily.<sup>42</sup>
- *Inventory management.* We have developed proprietary software and inventory management system that directs orders through our supplier and fulfillment network in an intelligent, optimized manner. This reduces our inventory holding costs, eliminates waste in the system in terms of cost and shipped miles, and enables us to deliver goods quickly to customers. This combined with expanding our inventory will enable us to fulfill approximately 65% of our customers' orders the next day and approximately 85% in two days.
- *Optimized asset utilization.* Our high order volume, high subscription program participation rate, and relatively low business seasonality allow us to optimize asset utilization across our network and continually lower our fixed and variable cost per unit and our days of inventory. Our software and data algorithms are continuously learning and optimizing, and each month we become more efficient than the last.
- **We deploy capital efficiently.**
  - Our low CAC enables us to deploy our capital and marketing spend efficiently even as we continue to grow, and to follow a disciplined approach of investing cash flow generated from our existing customer base to attract new customers. Given the rapid and consistent return on investment from our customers we have exclusively relied on cash from operations to fund our growth historically.
- **Passionate and experienced management team supported by best-in-class employees.**
  - Our management team is building a lasting brand through a measured approach to capital allocation and a focus on sustainable growth. Roger Hardy, our CEO, previously founded the successful NASDAQ listed online eyecare business, Coastal, and has worked in almost every role imaginable – from designing glasses to leading complex mergers. Roger has convened a team of seasoned executives with diverse and relevant expertise, who draw on average over 20 years' experience working with a wide range of leading global companies, including Amazon, Dyson, Essilor, Goldman Sachs and Procter & Gamble. Their leadership and energy have driven the effervescent culture of our brand and the smooth rollout of our optical lab for glasses.
  - We make an extraordinary effort to recruit the very best person for every job. We have ambitions to grow our business rapidly and we know that our people are key to enabling us to fulfill these goals. As such, we select our people carefully and we know they must reflect the diversity of our customers and share our company values. To be successful, we know that we must focus on attracting, retaining, motivating, and rewarding our people. We have been fortunate to attract many people with significant experience in the eyecare space into our marketing and manufacturing areas and we have complemented this industry experience with expertise in distribution, e-commerce, mergers and acquisitions, and technology.

## GROWTH OBJECTIVES AND MILESTONES

We believe that KITS is in the early days of its growth trajectory and we will deploy several strategies to increase net sales and expand gross margins, including:

- **Acquiring new customers:** We believe there is a significant opportunity to add new customers over time given the long-term secular shift from in-store to online shopping across all retail categories, including optical. In 2020 alone, \$0.6 billion in optical sales<sup>43</sup> are anticipated to move from in-store to online in North America. We believe this secular trend supports a strategy of allocating capital to advertising and marketing efforts that attract first-time online eyecare shoppers. KITS is well-positioned to capture these new customers given:

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<sup>42</sup> Company data, as of October 25, 2020.

<sup>43</sup> Source: Euromonitor International Limited, Personal Accessories 2021 edition, published June 2020, includes the initial impact of COVID.

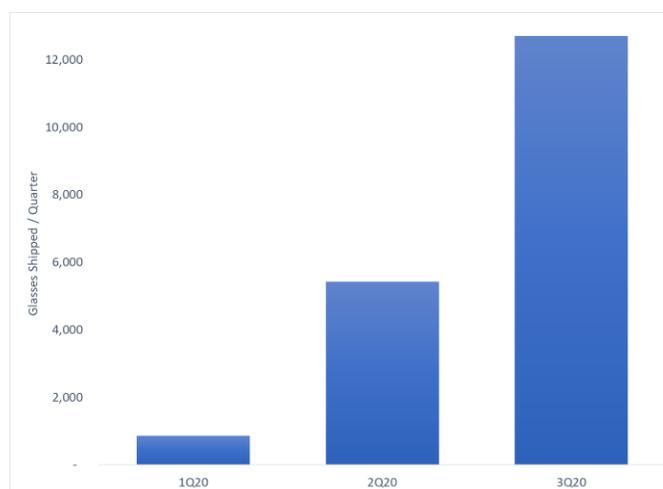
- Our 94%<sup>44</sup> satisfaction rating drives efficient customer acquisition from our strong search engine optimization position;
  - Our extensive selection of glasses and contact lenses from top brands and our own KITS brand provides customers with the selection and value they desire; and
  - We plan to use \$8 million from the proceeds of this offering over the next 12-24 months to invest in media content to build our brand awareness and acquire additional customers. Our goal is to deliver new customers at a CAC consistent with our current performance.
  - We plan to continue investing in brand awareness in North America driving traffic through the *KITS.com* and *KITS.ca* URLs and solidifying our market position as the most trusted brand in eyecare.
- **Increasing sales from our existing customers:** We seek to expand our share of our customers' cart over time by increasing AOV and improving retention, thereby increasing our customers' LTV over time. Repeat customers have historically increased annual purchases over time as they discover the full breadth of our product offerings and value proposition; in 2019, 69% of sales were from repeat customers<sup>45</sup>. We plan to pursue this strategy in several ways, and we have earmarked approximately \$4 million from the proceeds of this offering for retention initiatives with the following objectives:
    - Continuing to migrate customers into higher-AOV daily modality contact lenses, as well as the fast-growing and premium-priced color contacts products;
    - Incentivizing our large base of contact lens customers to purchase a pair of glasses along with their contact lens orders given we believe glasses and contact lenses are complementary products and that our competitive price points for both products provide an attractive value proposition to our customers;
    - Continuing to launch innovative new products such as expanding our blue-light blocking glasses and upgrading more customers to premium blue-light lenses, which seek to capture incremental demand created from increasing screen-time by our customers; and
    - Continuing to expand our base of subscription customers through our Autoship program for contact lenses. The ability for customers to automatically replenish their orders, referred to as "Autoship", was launched in February 2020, and since its launch, as we exited the third quarter of 2020, over 10% of our contact lens customers opted-in to Autoship at checkout and our goal is to grow this to over 25%, which allows KITS to drive retention and therefore increase LTV of our customers over time.
  - **Expanding margins with growth in eyeglasses and private brands:** Our target long-term growth of our eyeglasses business is projected to expand gross margins to 17-22% in the long-term. We expect our eyeglasses business will continue to increase as a proportion of our total net sales over time and therefore we expect a corresponding expansion in our gross margin profile from this product mix shift. Likewise, we expect sales of KITS-branded eyeglasses and KITS-branded contact lenses to have a higher gross margin than 3<sup>rd</sup> party branded products and as such we anticipate gross margin expansion as private label products become a larger proportion of our total net sales over time. Marketing, fulfillment and selling, general and administrative expenses as a percentage of revenues are expected to remain substantially stable overall in the long term.

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<sup>44</sup> Based on ShopperApproved online customer reviews for OptiContacts.com and ContactsExpress.ca since inception as of November 9, 2020.

<sup>45</sup> Based on KITS consolidated revenue for Fiscal 2019 pro forma for the acquisition of KITS.com Technologies Inc. on April 5, 2019. See "Selected Pro Forma and Consolidated Financial Information and Other Data".

## Glasses Shipped



- **Leveraging our technology-forward model and operational efficiencies:** As we have grown sales over the past year, we have also expanded our gross margin, which is a continuing focus and objective for us. As we continue to scale our platform, there will be increasing opportunities to invest in automation, data-driven analytics and new technologies to improve all aspects of our business including product development, marketing, manufacturing, warehousing, distribution, and customer experience. We plan to invest approximately \$1 million over the next 12-24 months in continuing to enhance our suite of online vision tools and services. In addition, as our purchase volumes from vendors grow, we expect to be able to achieve lower costs. The operational leverage we gain from scaling and the subsequent investment opportunities that are generated creates a flywheel that creates a competitive advantage for us that we expect will drive growth for KITS in the future.
- **Investing in manufacturing and distribution capacity:** In 2019, we commenced operations of our fully automated in-house optical lab for glasses; we will plan to invest approximately \$15 million over the next 12-24 months to build out 2 lens surfacing lines, 2 edging lines, implement greater automation and upgrade our facilities to support our strategic growth plans. In addition, to facilitate fast delivery, we plan to use approximately \$4 million from the proceeds of the Offering to expand the depth of our inventory. This will enable us to deliver an excellent customer experience to our new customers and expand our brand loyalty and retention. We will also prioritize investment in our warehouse, distribution, and fulfillment capabilities to support continued sales growth and build our optical “gigafactory”.
- **Growing through strategic acquisitions:** We have successfully completed and integrated one significant acquisition at KITS since our founding in 2018, and our CEO, Roger Hardy, has a successful track-record of acquiring and integrating optical businesses prior to founding KITS. We will be opportunistic in acquiring businesses that expand our presence in new geographies, new product lines, and/or grow our base of customers, which may include consolidation of certain sub-scale competitors.

## OUR HISTORY

The KITS brand was established in 2018 in Vancouver, British Columbia, by our CEO, optical industry and e-commerce pioneer, Roger Hardy, along with Sabrina Liak and Joseph Thompson, to address a gap in the current eyecare market, through their work with Rain City Labs Inc. (“**Rain City**”), a company controlled by Roger Hardy. During 2018, a collection of KITS eyewear from Milan and Stockholm and KITS-branded silicone hydrogel contact lenses were developed.

On April 5, 2019, KITS completed the Acquisition of LD Vision Group (renamed to KCTI) and gained a recurring loyal customer base and valuable technology platform to accelerate our growth. LD Vision Group was founded in 2002 and was one of North America’s largest independent direct retailer of optical goods, managing a family of brands including OptiContacts.com and ContactsExpress.ca. At the time of the Acquisition, LD Vision Group had delivered 2.7 million orders to over 1 million customers across North America over its history. LD Vision Group was founded by Arshil Abdulla, now the Chief Technology Officer of KITS.

The purchase price for KCTI was comprised of a combination of cash in the amount of \$32.7 million, \$10 million in Class A preferred shares of KITS issued to the vendors, and Common Shares representing a 40% interest in KITS. Concurrent with

the Acquisition, Rain City subscribed for Class B preferred shares of KITS in the amount of \$7 million and transferred its assets (comprised of a collection of KITS frames inventory, intellectual property and brand assets) to KITS in exchange for \$0.3 million of Class C preferred shares of KITS.

In order to fund the purchase price of KCTI, KITS entered into a loan agreement with BDC Capital Inc. ("**BDC**") dated March 26, 2019, as amended (the "**BDC Loan Agreement**"), which provided for a loan of \$23.4 million (the "**BDC Loan**"). The BDC Loan bears interest at a rate of BDC's floating base rate minus 1% plus a variance of 2.95% per annum payable monthly. The principal amount of the BDC Loan is payable in equal monthly installments of \$250,000 commencing March 15, 2020, with a final payment of \$5.15 million on maturity on March 15, 2026. In addition, the BDC Loan Agreement provides, among other covenants, for: (i) an excess cash flow sweep whereby principal shall be repaid annually in an amount equal to 50% of the Excess Available Funds (as defined in the BDC Loan Agreement) of KITS and KCTI up to a maximum of \$850,000; (ii) maximum funded and unfunded capital expenditures of \$250,000 per annum net of dispositions (the "**Capital Expenditures Limit**"); (iii) minimum cash and cash equivalents of \$1,500,000; (iv) minimum working capital ratio of 1:1; (v) total debt to trailing twelve month EBITDA less than 4:1, reduced to 3.75:1 on July 1, 2021 and further reduced to 3.5:1 on October 1, 2021 (the "**Debt to EBITDA Ratio**"); (vi) fixed charge coverage ratio of a minimum of 1.1:1, increased to a minimum of 1.15:1 on July 1, 2021 and further increased to a minimum of 1.25:1 on October 1, 2021 (the "**Fixed Charge Coverage Ratio**"). KITS may prepay any of the outstanding principal with penalties, which are currently 3% of the outstanding BDC Loan until October 1, 2021, reduced to 2% from October 2, 2021 to October 1, 2022, and further reduced to 1% from October 2, 2022 to October 1, 2023, and no penalty thereafter. BDC is also entitled to a one-time bonus payment, due, at its option, upon maturity or completion by the Company of the Offering, equal to 0.45% of the Company's annual gross sales for the applicable annual period, which BDC has opted to trigger upon maturity at which time the calculation will be made. The BDC Loan is secured by a first ranking security interest in all present and after acquired personal property and all present and future intellectual property of KITS and KCTI.

Effective December 22, 2020, the Company entered into a further amendment of the BDC Loan Agreement providing for, among other things, the following: (i) an increase in the interest rate on the BDC Loan effective January 15, 2021, to BDC's floating base rate plus a variance of 4.45% per annum payable monthly; (ii) consent by BDC to effect the Pre-Closing Capital Changes and complete the Offering, including the transactions constituting the Over-Allotment Option, if any; (iii) to remove the Capital Expenditures Limit; (iv) to amend the Debt to EBITDA Ratio such that it will not be tested quarterly prior to January 1, 2023, provided that the Company maintains at all times a cash balance of at least \$7,000,000; (v) to amend the Fixed Charge Coverage Ratio such that it will not be tested quarterly prior to January 1, 2023, provided that the Company maintains at all times a cash balance of at least \$7,000,000; (vi) the addition of a covenant to maintain a total debt to tangible equity ratio of a maximum of 0.6:1.0, tested quarterly; (vii) the addition of a restriction on sales or transfers of Common Shares by, on a combined basis, the Original Kits Shareholders, Arshil Abdulla, Fayaz Abdulla and Shaneef Mitha (including the LD Group), their family members or any other related parties or entities whose Common Shares such holders hold beneficial ownership over, to no more than 5% of the combined shareholdings of such holders immediately following the Offering, in any calendar year (excluding in respect of the exercise of the Over-Allotment Option); and (viii) to remove limits on compensation payable to management and replace same with a covenant that the Company agrees to maintain a compensation committee comprised entirely of independent directors.

In late 2019, we launched our fulfillment centre capable of fulfilling up to 3,500 orders per day in Richmond, British Columbia. Moreover, we commenced sales of our KITS-branded contact lenses and glasses, along with several exclusive collaborations with premium design houses.

In the first quarter of 2020, we unveiled our state-of-the-art, fully automated optical lab for glasses with a current capacity of over 2,000 glasses per day. We also began consolidating our websites to the KITS.com website, continued expanding our glasses selection to include a broad selection of designer brands, and launched our Autoship program for contact lenses. As an example of our commitment to innovation, in Q3 2020, we introduced our new, exclusively designed blue-light blocking lenses – KITS ScreenTime – to make screen time more comfortable and reduce the symptoms of digital eye strain.

On December 3, 2020, we entered into a lease agreement to lease a retail store space in Vancouver, British Columbia. The new lease commences on or about January 1, 2021 and includes escalating rent payments and an initial five year term.

On December 10, 2020, we welcomed Ted Goldthorpe, Peter Lee and Anne Kavanagh to our board of directors ("**Board**"). See "Directors and Executive Officers".

On December 14, 2020, we completed a 2.3-for-1 Common Share split (the "**Share Split**"). All information relating to our securities in this prospectus, unless otherwise noted, reflect the Share Split, including all consequential adjustments to our other classes of outstanding securities.

## OUR TEAM

KITS' management team, based in Vancouver, British Columbia, has significant experience in the eyecare sector.

**Roger Hardy, CEO:** Previously, Mr. Hardy was CEO and Co-Founder of Coastal (and Clearly). Under his leadership, Coastal became the leading North American online eyewear retailer and manufacturer in just a few short years, a triumphant achievement for the entire team. Founded in 2000, Coastal was acquired by Essilor in 2014.

**Sabrina Liak, CFO and Corporate Secretary:** Ms. Liak has 19 years of experience in the finance space. Previously, she was a Managing Director and Portfolio Manager at Goldman Sachs Investments Partners in New York where she managed a portfolio of private growth investments. Ms. Liak is a CFA charterholder.

**Joseph Thompson, COO:** Mr. Thompson brings 22 years of experience leading organizations at Amazon and Procter & Gamble. Previously, Mr. Thompson was General Manager of Retail at Amazon where he managed a multi-billion dollar division. Prior to Amazon, Mr. Thompson had a 14-year career at Procter & Gamble with assignments in Cincinnati, Boston, Shanghai, and Toronto.

**Arshil Abdulla, CTO:** Previously, Mr. Abdulla was CEO, CTO, and founder of LD Vision Group, a leading online retailer of contact lenses built on a custom tech platform that was unparalleled in the eyecare industry in terms of automation and efficiency. Mr. Abdulla has 18 years of experience with building technology platforms in the optical industry. He manages all facets of technology and project development across the organization.

**Rob Long, CMO:** Mr. Long is a passionate growth marketer, bringing 13 years of experience building innovative direct-to-consumer brands. Mr. Long joins KITS after a tenure with Dyson Canada, where he built and led their direct-to-consumer business. Previously, he was a key member of Clearly's marketing leadership team, from their launch of eyeglasses in 2008 to the Essilor acquisition in 2014.

## IMPACT OF COVID-19

The COVID-19 pandemic has caused disruption to economies and communities across the U.S. and Canada in 2020. In the interest of public health, public authorities across both the U.S. and Canada issued stay-at-home orders, promoted social distancing, and closed physical stores and places of business deemed non-essential. Our business is impacted by COVID-19 on multiple fronts.

From a consumer demand front, COVID-19 has resulted in a shift in shopping behavior from traditional brick-and-mortar stores to online shopping, and we have benefited from this change in customer habits. We have seen an acceleration in both orders from existing customers and the onboarding rate for of new customers. While we do not have certainty around the longevity and magnitude for the current demand trends to continue, we expect COVID-19 to result in a long-term shift in shopping behavior towards the online channel.

On the operational front, we split our warehouse into two shifts beginning in April and opened an additional facility to address the healthy spacing requirements. In addition, we had some temporary and permanent loss of staff due to quarantines and other COVID-19 related reasons. These factors are resulting in higher training/recruitment, staffing costs, and rental costs. Our carriers have been overwhelmed by the increase in shipping activity resulting from higher e-commerce activity. This has resulted in some shipping delays and increased volatility in delivery times.

We are dependent upon suppliers to provide us with all of the products that we sell. The pandemic has impacted and may continue to impact suppliers and manufacturers of certain of our products. As a result, we have faced and may continue to face delays or difficulty sourcing certain products, which could negatively affect our business and financial results. Even if we are able to find alternate sources for such products, they may cost more, which could adversely impact our profitability and financial condition.

In addition, our operations could be disrupted if any of our employees are diagnosed with or suspected of having the virus, which could require quarantine of some or all such employees or closure of our facilities for disinfection. The duration of any fulfillment and manufacturing disruption cannot be reasonably estimated at this time but may materially affect our ability to operate our business and result in additional costs. The extent to which the pandemic may impact our results will depend on future developments, which are highly uncertain and cannot be predicted as of the date of this prospectus, including new information that may emerge concerning the severity of the pandemic and steps taken to contain the pandemic or treat its impact, among others. Nevertheless, the pandemic and the current financial, economic and capital

markets environment, and future developments in the global supply chain and other areas present material uncertainty and risk with respect to our performance, financial condition, results of operations and cash flows. See also “Risk Factors” below.

We are managing through this pandemic, but it has required some adjustments to our distribution network and inventory strategy (we increased our inventory levels) as well as higher costs associated with upgrading shipment service levels. Overall, these costs have been offset by our growth in revenue, but it requires active management to balance all these COVID-19 related factors. Our two corporate offices are open at reduced workforce levels to meet healthy distancing requirements and most corporate employees work remotely.

## **MARKET COMPETITION**

The eyewear retail market is highly competitive, fragmented and spread across five primary segments:

- Ophthalmologists and optometrists in private practice and/or members of multi-doctor purchasing alliances;
- National optical chains, such as Vision Source, Lens Crafters, Pearle Vision, National Vision and New Look;
- Mass merchandisers and club stores, such as Wal-Mart, Costco and Loblaws;
- Online Retailers, both independent companies and divisions of brick-and-mortar retailers such as 1800 Contacts, Warby Parker, Zenni Optical, and Clearly; and
- A number of smaller, subscale, early stage participants, most of whom do not benefit from recurring revenue from contact lenses, lack KITS’ strong relationships with trusted and leading brands, are not vertically integrated, do not have the same scale of inventory, and do not have KITS’ end-to-end customer service capabilities from its vertically integrated model.

We believe that some of the key competitive factors in our market are product selection and quality, price, customer service, brand awareness and loyalty, reliability and trust, convenience, and speed at which orders are delivered to our customers. We believe that we differentiate ourselves from our competitors by focusing on our customers, providing an affordable and convenient shopping experience for our customers by and achieving a high level of performance on these competitive factors. In addition, we believe that our online capabilities are superior when compared with the online channel capabilities for a majority of ophthalmologists and optometrists in private practice and/or members of multi-doctor purchasing alliances, which provides us with an advantage in the fast growing online channel.

## **THE KITS PARTNERSHIP ECOSYSTEM**

KITS partners with a carefully selected set of best-in-class providers for raw material, eyecare products, and vision related technology. Our relationship with our partners provides a mutually beneficial ecosystem for KITS and for our partners, so that all of us benefit from each other’s brand and capabilities.

The rapid growth of our customer base and sales, paired with our comprehensive eyecare platform, provide our partners with opportunities to grow their brands. Our partners benefit from the trust and high reviews we have generated from our customers, and our Autoship subscription program for contact lenses leads to increased repeat orders of our partners’ products. Our integrated, fully automated optical lab for glasses, distribution facility and fulfillment network also benefit our partners by providing fast and reliable delivery options for their products.

We offer a wide assortment of optical products and services that grows every day. We carry more than 500 styles, 50 brands and over 100,000 individual SKUs, representing the best and most desired products in optical. Our contact lens partners include Acuvue, Alcon, Bausch & Lomb, Biofinity, Coopervision and Dailies, and our glasses partners include Oakley, Prive Revaux, Ray-Ban and Tom Ford, which enables us to offer our customers best-in-class brands and products in eyecare. We are also partnered with raw material suppliers of the finest Italian acetate and metal, and the best in European hinge design for our handmade KITS frames, which enables us to offer our customers with the best quality KITS-branded glasses. Our raw materials are widely available from a variety of sources, accordingly, we believe we are not subject to material supply constraint risks.

All our frames begin as art. Our in-house team starts with inspiration from people, culture, and the environment around us. We start by hand sketching the details of each frame, drawing from many muses in our own city – buildings, the skyline, and infrastructure. Our KITS logo associated with our glasses was inspired by an ancient local tool. We also travel the world searching for talent that aligns with our core values. We have partnered with emerging artists and environmental thought

leaders across the globe – our Vasuma x KITS capsule was designed in partnership with four talented Swedish frame designers who share our passion for making beautiful, functional frames. We are also partnered with a team in Patagonia to recycle our manufacturing waste (the excess cuttings from our lens machines) into new frames. We take inspiration and learn from our partners and we believe in sponsoring an ecosystem of artists and innovators to create incredible products.

## **EMPLOYEES**

As of September 30, 2020, we had 49 employees, of which 13 were employed in our corporate offices, and 36 were employed at our distribution and fulfillment centre in British Columbia.

We hire seasonal workers and part-time employees for our distribution and fulfillment centre during peak seasons such as back-to-school and the year-end expiration of our customers' employer health benefits. This provides us with greater flexibility in our workforce and allows us to better address busier peak periods. None of our employees are currently covered by a collective bargaining agreement and we have had no labour-related work stoppages.

## **INTELLECTUAL PROPERTY**

We regard our domain names, brands, trade secrets, proprietary technologies and similar intellectual property as critical to our success, and we rely on intellectual property laws, trade-secret protection, and confidentiality and/or license agreements with our employees, customers, partners, and others to protect our proprietary rights.

## **REGULATORY MATTERS**

There are extensive and diverse sets of laws and regulations governing the provision of eyecare. Accordingly, regulatory compliance for optical businesses is complicated and time-intensive and involves several regulatory bodies and licensing agencies in Canada and the United States. We believe that our deep knowledge of the optical regulatory framework and our significant compliance experience, supported by our proprietary compliance technology, provide us with an important competitive advantage. This experience and knowledge of the regulatory environment serve as a barrier for potential new entrants into the online optical industry. See "Risk Factors" for a description of relevant laws and regulations applicable to our business.

## **MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The following Management's Discussion and Analysis ("**MD&A**") provides information concerning our financial condition and results of operations. This MD&A should be read in conjunction with our audited consolidated financial statements and unaudited condensed interim consolidated financial statements, including the related notes thereto, included elsewhere in this prospectus. This discussion contains forward-looking information that involves risks and uncertainties. Our actual results, performance and achievements could differ materially from those implied by such forward-looking information as a result of various factors, including those discussed below and elsewhere in this prospectus, particularly under "Forward-Looking Information" and "Risk Factors".

### **Non-IFRS Measures**

This MD&A makes reference to certain non-IFRS measures. These measures are not recognized measures under IFRS, do not have a standardized meaning prescribed by IFRS and are therefore unlikely to be comparable to similar measures presented by other companies. Rather, these measures are provided as additional information to complement those IFRS measures by providing further understanding of our results of operations from management's perspective. Accordingly, these measures should not be considered in isolation nor as a substitute for analysis of our financial information reported under IFRS. We use non-IFRS measures including "Run-Rate Revenue", "EBITDA", "Adjusted EBITDA" and "Adjusted EBITDA Margin". Refer to "Non-IFRS Measures and Industry Metrics" of this prospectus. Management uses these non-IFRS financial measures to exclude the impact of certain expenses and income that management does not believe are reflective of the Company's underlying operating performance and make comparisons of underlying financial performance between periods difficult. From time to time, the Company may exclude additional items if it believes doing so would result in a more effective analysis of underlying operating performance. These non-IFRS measures are used to provide investors with supplemental measures of our operating performance and thus highlight trends in our core business that may not otherwise be apparent when relying solely on IFRS financial measures. We also believe that securities analysts, investors and other interested parties frequently use non-IFRS measures in the evaluation of issuers. Our management also uses non-IFRS measures in

order to facilitate operating performance comparisons from period to period, to prepare annual operating budgets and to determine components of management compensation.

### **Forward-Looking Information**

Some of the information contained in this MD&A contains forward-looking information. This information is based on management's reasonable assumptions and beliefs in light of the information currently available to us and is made as of the date of this MD&A. However, we do not undertake to update any such forward-looking information whether as a result of new information, future events or otherwise, except as required under applicable securities laws in Canada. Actual results and the timing of events may differ materially from those anticipated in the forward-looking information as a result of various factors, including those described in "Risk Factors" and elsewhere in this prospectus.

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

### **Basis of Presentation**

On October 15, 2018, KITS was incorporated under the laws of British Columbia. On April 5, 2019, the Company completed the acquisition of all of the issued and outstanding shares of KCTI, an online retailer of contact lenses and eyewear, with sales primarily in the United States and Canada.

The Acquisition was accounted for as a business combination using the acquisition method of accounting and KITS financial statements reflect the fair value of assets acquired and liabilities assumed as of the effective closing of the Acquisition. Periods presented prior to April 5, 2019, represent the operations of the KCTI as "Predecessor" and the periods presented after April 5, 2019, represent the operations of the KITS as "Successor".

Accordingly, the Company's financial results as of December 31, 2019, and September 30, 2019, represent only the results of operations subsequent to and including April 5, 2019, the date of the Acquisition. The Predecessor and Successor periods have been separated by a black line on the consolidated financial statements to highlight the fact that the financial information for such periods has been prepared under two different cost bases of accounting. All intercompany transactions have been eliminated.

The Pro Forma Combined Year Ended December 31, 2019, includes the 94 day Predecessor period from January 1, 2019, through April 4, 2019 (the "**2019 Pre-Acquisition Period**") and the 271 day Successor period from April 5, 2019, through December 31, 2019.

For the purpose of performing a comparison to the Predecessor's year ended December 31, 2018, and the Successor's nine-month period ended September 30, 2019, we have prepared Unaudited Pro Forma Combined Supplemental Financial Information for the nine-month period ended September 30, 2019, and the year ended December 31, 2019 which gives effect to the Acquisition as if it had occurred on January 1, 2019, and which we refer to as the Unaudited Pro Forma Combined periods. The Unaudited Pro Forma Combined periods discussed do not purport to represent what our actual consolidated results of operations would have had the Acquisition actually occurred on January 1, 2019, nor is it necessarily indicative of future consolidated results of operations. The Unaudited Pro Forma Combined periods are being discussed herein for informational purposes only and does not reflect any operating efficiencies or potential cost savings that may result from the consolidation of operations. See Page F-58 of this prospectus for the aforementioned unaudited pro forma financial statements.

Unless otherwise noted, all dollar amounts in this MD&A are in \$'000s.

### **Summary of Factors Affecting Performance**

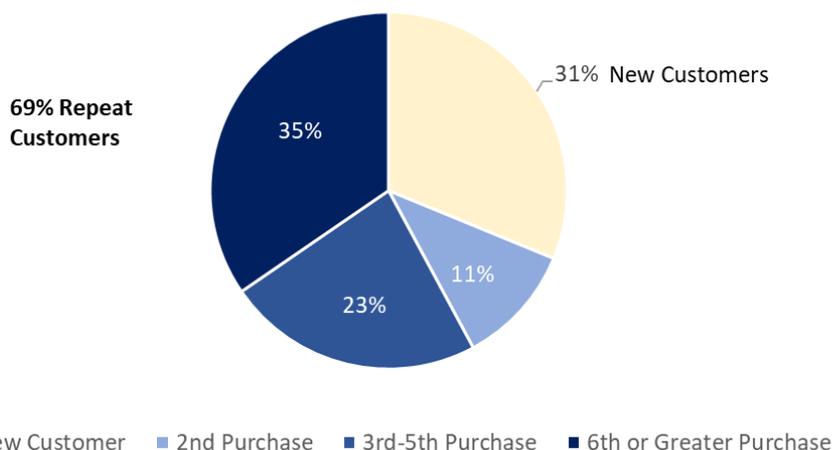
We believe that our performance and future success depend on a number of factors that present significant opportunities. These factors are also subject to a number of inherent risks and challenges, some of which are discussed below and in the "Risk Factors" section of this prospectus.

## Growth in Revenue and Repeat Purchases from Existing Customers

Our top priority is to create a platform that offers customers a radically improved customer experience in the vision category. We are building the world’s leading vision care platform, one that attracts and retains visitors, creating a long-term loyal recurring revenue stream. In addition, we anticipate returning customers will purchase other eyecare products from us over time. Our goal is to build category-leading eyecare products and to introduce and convert our loyal customers to our KITS brand. As of September 30, 2020, we had over 600,000 active customers, which are defined as customers who have placed orders in the preceding four years, up from over 500,000 as of December 31, 2019. Repeat orders from existing customers accounted for approximately 69% of our revenue in 2019<sup>46</sup>. While we anticipate that our rapid growth and success in attracting new customers will change our repeat and new customer mix going forward, we continue to believe that the best way to grow a dominant eyecare brand is by satisfying loyal customers and having them become passionate advocates for our brand.

The following pie chart illustrates the composition of our customers for the year ended December 31, 2019:

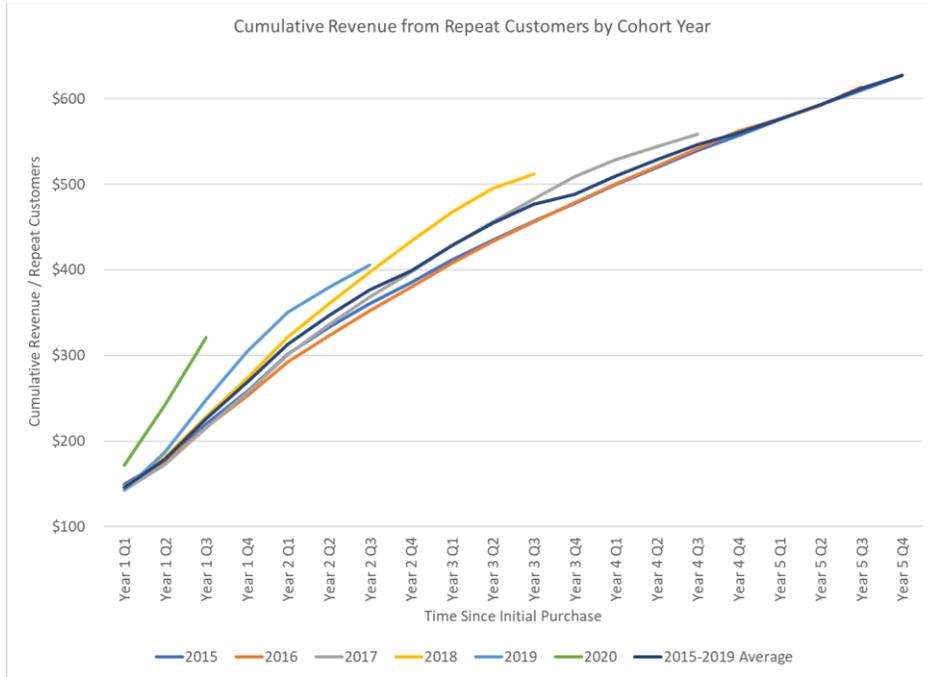
**2019 Shipped Revenue by Customer Purchase Behaviour**



## Revenue per Customer

We believe our revenue per customer over time demonstrates the efficiency of our platform and our increasing value to customers as we gain their trust and they continue to purchase from us. Customers acquired in more recent periods have been spending more over time than customers acquired in older periods. For example, for the 2019 cohort, from their first purchase through to their third quarter as customers, they purchased 10% more than the average of the 2015-2019 cohorts for the same period and the 2020 cohort purchased 42% more than the average of the 2015-2019 cohorts for the same period.

<sup>46</sup> Based on KITS consolidated revenue for Fiscal 2019 pro forma for the acquisition of KITS.com Technologies Inc. on April 5, 2019. See "Selected Pro Forma and Consolidated Financial Information and Other Data".



We plan to continue to grow revenue from existing customers through increased repeat orders, facilitated by our recently launched Autoship program, increased brand awareness and product offerings, and growth in our customers’ AOV.

**Growth in Brand Awareness Drives New Visitors to Our Platform**

We intend to continue building our KITS platform through investing in marketing activities to build brand awareness and investing in our user experience which we believe accelerates our brand investment efficiency. We believe brand awareness grows as a result of marketing, as well as customers’ experience with our brand. As more customers experience the value, savings, and convenience of the brand offering and are satisfied or “wowed” by the experience, we anticipate further enhanced growth. From 2017-2019, advertising and marketing spend as a percentage of revenue ranged from 5% to 9% which we believe is industry leading in terms of efficiency and demonstrates the power of our platform. The efficiency comes from delivering a customer experience that exceeds customer expectations and inspires customers both to return and to share their experience with others. Over the near to medium term, we expect to increase spending on marketing in both percentage of revenue terms and absolute dollars, but over the long term, we expect our spending on marketing as a percentage of revenue to normalize. We are seeing traffic to our platform, on desktop and mobile, increase as we continue to invest in providing a vast product offering and innovative technology solutions.

**Growth of Our Autoship Program**

A majority of our revenue base comes from repeat customers, and we continue to codify this repeat business as subscription revenue through our Autoship program. We launched our beta Autoship program in February 2020, and our current Autoship program in July 2020. As we exited the third quarter of 2020, over 10% of our contact lens customers opted-in to Autoship at checkout. Currently, approximately 10% of all orders placed are choosing to opt into the Autoship subscription program. Customers love the convenience that Autoship offers, as well as the access to an unlimited number of online vision tests we offer as part of the program. Our goal is to grow this opt-in rate to 25% which will drive higher retention and increase the LTV of our customers over time.

**Growth of Our Glasses Business**

The glasses industry is approximately five times the size of the contact lenses market, and we will continue to leverage our 600,000 active, vision corrected contact lens customers<sup>47</sup>, by introducing them to our rapidly growing eyeglasses selection. Our state-of-the-art lens lab offers the ability for next day delivery, and the convenience of ordering confidently from the comfort of your home with our virtual try-on tools. We continue to expand our selection of KITS glasses together

<sup>47</sup> Active customers refer to customers who have placed orders in the preceding four years.

with other leading brands, adding new frames weekly. Additionally, we have expanded our offering to include blue-light lenses, premium lens coatings, and progressive lenses, which will continue to increase average order value.

### **Efficiency of Investment in Advertising and Marketing**

We are disciplined in tracking and managing all forms of marketing investment. We monitor the return on our advertising spend and seek to improve the ratio of revenue to spend and optimize the efficiency of our spending on advertising and marketing.

Our spending on advertising and marketing is weighted towards direct response and acquisition channels, with relatively limited spending on retention and other awareness programs. As a result, we have high visibility into the returns on our spend in advertising and marketing. Given the increasing levels of competition in the market and across the various channels we operate in, we continually monitor and adjust our spending on a real-time basis, seeking to maximize new customer acquisitions while ensuring efficient acquisition spending.

We benefit from a long historical track record across our main acquisition channels which has enabled us to maintain relatively low marketing spend while simultaneously growing topline profitably. With one of the highest review counts in the category and excellent ratings, we believe many customers tell their friends and family about their experience with us; keeping our acquisition costs low. While we are extremely proud of this history, we believe we are uniquely positioned to expand investment efforts to acquire first-time online eyecare customers and plan to invest more upfront to win these customers. Although additional spending on advertising and marketing may result in higher advertising and marketing expenses in the year of acquisition, we believe that revenue and profit generated over multiple years after acquiring a customer make marketing the highest returning investment option for any excess cash generated from our operations.

### **Investments**

We believe that we have an opportunity to continue to achieve significant growth due to the secular shift from in-store to online shopping as well as the new breakthroughs in technology and adoption of telehealth tools which we are investing in to ensure we create the leading eyecare platform. In order to realize this growth, we anticipate that our operating expenses will grow substantially as we continue to increase our spending on advertising and marketing, hire additional personnel primarily in merchandising, technology, operations, marketing, and general and administrative functions and continue to develop features on our platform to improve the customer experience. We believe that such investments will increase the number and loyalty of our customers and, as a result, yield consistent positive returns in the long term.

### **Components of Our Results of Operations and Trends Affecting Our Business**

#### *Revenue*

We derive revenue primarily from sales of both third-party brand and KITS brand contact lenses, glasses, and related shipping and handling fees. Revenue is recorded when products are delivered, net of promotional discounts and refund allowances. Taxes collected from customers are excluded from revenue. Revenue is primarily driven by growth of new customers and active customers, and the frequency with which customers purchase and subscribe to our Autoship subscription program.

We also periodically provide promotional offers, including discount offers, such as percentage discounts off current purchases and other similar offers. These offers are treated as a reduction to the purchase price of the related transaction and are reflected as a net amount in revenue. Such offers are discretionary, and we expect incentive offers to vary from period to period as a percentage of sales for the foreseeable future.

#### *Cost of Sales*

Cost of goods sold consists of the cost of third-party brand and KITS brand products sold to customers, inventory freight, inventory shrinkage costs, and inventory valuation adjustments, offset by reductions for promotions and percentage or volume rebates offered by our suppliers, which may depend on reaching minimum purchase thresholds. We expect cost of goods sold to increase on an absolute dollar basis but remain stable or improve as a percentage of revenue over the long term as we achieve economies of scale and our product mix shifts towards higher margin glasses.

## Fulfillment

Fulfillment costs primarily consist of those costs incurred in operating and staffing our fulfillment, optical lab, and customer service centres, third party fulfillment costs, and payment processing costs. Fulfillment costs as a percentage of revenue may vary due to several factors, such as payment processing and related transaction costs, our level of productivity and accuracy, changes in volume, size, and weight of units received and fulfilled, the timing of fulfillment network and optical lab expansion, the extent we utilize fulfillment services provided by third parties, mix of products and services sold, and our ability to increase efficiency per shipment by implementing improvements in our operations and enhancements to our customer self-service features.

We continually seek to expand our fulfillment network to accommodate a greater selection and higher in-stock inventory levels and to meet anticipated order volumes from our customers. We regularly evaluate our facility and lab requirements.

## Marketing

Marketing costs include advertising and payroll and related expenses for personnel engaged in marketing and selling activities. We direct customers to our platforms primarily through a number of marketing channels, such as our sponsored search, third party customer referrals, social and online advertising, and other initiatives. Our marketing costs are largely variable, based on growth in sales and changes in rates. To the extent there is increased or decreased competition for these traffic sources, or to the extent our mix of these channels shifts, we would expect to see a corresponding change in our marketing costs.

While costs associated with Autoship and other promotional offers are not included in marketing expense, we view these offers as effective marketing tools, and intend to continue offering them indefinitely.

## Selected Annual and Quarterly Consolidated Financial Information

The following table summarizes our recent results of operations for the periods and years indicated. The selected consolidated financial information set out below for the three and nine months ended September 30, 2020 and 2019 has been derived from our unaudited condensed consolidated interim financial statements and related notes included in this prospectus. The selected consolidated financial information for the years ended December 31, 2019, December 31, 2018, and December 31, 2017, has been derived from our audited consolidated financial statements and related notes included in this prospectus.

The Pro Forma Combined Year Ended December 31, 2019, includes the 2019 Pre-Acquisition Period and the 271 day Successor period from April 5, 2019, through December 31, 2019. For the purpose of performing a comparison to the Predecessor's year ended December 31, 2018, and the Successor's nine-month period ended September 30, 2019, we have prepared Unaudited Pro Forma Combined Supplemental Financial Information for the nine-month period ended September 30, 2019, and the year ended December 31, 2019 which gives effect to the Acquisition as if it had occurred on January 1, 2019, and which we refer to as the Unaudited Pro Forma Combined periods.

	Successor				
	Year Ended December 31, 2019 (a) <i>(audited)</i>	Three Months Ended September 30, 2019 <i>(unaudited)</i>	Three Months Ended September 30, 2020 <i>(unaudited)</i>	Nine Months Ended September 30, 2019 <i>(unaudited)</i>	Nine Months Ended September 30, 2020 <i>(unaudited)</i>
<b>CAD \$000s, unless otherwise noted</b>					
Revenue.....	\$ 36,897	\$ 12,007	\$ 20,201	\$24,224	\$54,934
Cost of Sales.....	26,085	8,638	14,260	17,354	38,282
Gross profit.....	10,812	3,369	5,941	6,870	16,652
Fulfillment.....	2,717	928	2,113	1,722	5,374
Marketing .....	3,168	794	1,992	2,112	5,370
General and administrative.....	1,581	263	623	748	1,873
Depreciation and amortization.....	1,327	442	498	850	1,504
Operating income .....	2,019	942	715	1,438	2,531
Finance costs, net.....	1,821	610	525	1,212	2,055
Other expenses (income) .....	108	35	157	70	284

	Successor				
	Year Ended December 31, 2019 (a) <i>(audited)</i>	Three Months Ended September 30, 2019 <i>(unaudited)</i>	Three Months Ended September 30, 2020 <i>(unaudited)</i>	Nine Months Ended September 30, 2019 <i>(unaudited)</i>	Nine Months Ended September 30, 2020 <i>(unaudited)</i>
<b>CAD \$000s, unless otherwise noted</b>					
Income before income taxes.....	90	297	33	156	192
Income tax expense .....	37	12	165	24	559
Net income (loss).....	53	285	(132)	132	(367)
Other comprehensive income (loss).....	(1,302)	547	(1,224)	(319)	803
Comprehensive income (loss).....	\$ (1,249)	\$ 832	\$ (1,356)	\$ (187)	\$ 436
Non-IFRS Measures (b):					
EBITDA .....	\$3,238	\$1,349	\$1,056	\$2,218	\$3,751
Adjusted EBITDA.....	\$ 3,643	\$1,378	\$1,718	\$2,487	\$4,768
Adjusted EBITDA Margin % .....	9.9%	11.5%	8.5%	10.3%	8.7%

## Notes:

- (a) Prior to April 5, 2019, KITS had no operations and beginning April 5, 2019, KITS consolidated the operations of KCTI.  
(b) Refer to "Non-IFRS Measures" section and "Non-IFRS Measures and Industry Metrics" of this prospectus.

	Predecessor			Unaudited Pro Forma Combined Year Ended December 31, 2019 (a)	Unaudited Pro Forma Combined Nine Months Ended September 30, 2019 (a)
	Period from January 1, 2019 to April 4, 2019 <i>(audited)</i>	Year Ended December 31, 2018 <i>(audited)</i>	Year Ended December 31, 2017 <i>(audited)</i>		
<b>CAD \$000s, unless otherwise noted</b>					
Revenue.....	\$13,049	\$47,620	\$42,951	\$49,946	\$37,273
Cost of Sales .....	10,196	34,423	31,197	36,281	27,550
Gross profit.....	2,853	13,197	11,754	13,665	9,723
Fulfillment.....	739	2,586	1,779	3,456	2,461
Marketing .....	730	2,188	1,887	3,898	2,842
General and administrative.....	750	1,697	815	1,977	1,147
Depreciation and amortization.....	10	54	93	1,786	1,309
Operating income (loss).....	624	6,672	7,180	2,548	1,964
Finance (income) costs, net.....	(12)	(24)	(24)	2,433	1,824
Other expenses .....	38	30	-	146	108
Income (loss) before income taxes.....	598	6,666	7,204	(31)	32
Income tax expense .....	218	2,222	1,848	100	87
Net income (loss).....	\$380	\$4,444	\$5,356	\$(131)	\$(55)
Other comprehensive income (loss).....	(31)	170	(195)	(1,333)	(350)
Comprehensive income (loss).....	\$ 349	\$ 4,614	\$ 5,161	\$(1,464)	\$(405)
Non-IFRS Measures (b):					
EBITDA .....	\$596	\$6,696	\$7,273	\$4,188	\$3,165
Adjusted EBITDA.....	\$596	\$6,696	\$7,273	\$4,326	\$3,165
Adjusted EBITDA Margin % .....	4.6%	14.1%	16.9%	8.7%	8.5%

## Notes:

- (a) The pro forma adjustments made give effect to the Acquisition as if it had occurred on January 1, 2019, and are summarized at Page F-58 of this prospectus.  
(b) Refer to "Non-IFRS Measures" section and "Non-IFRS Measures and Industry Metrics" of this prospectus for details.

### **Three Months Ended September 30, 2020, Compared to Three Months Ended September 30, 2019**

The following section provides an overview of our financial performance during the three months ended September 30, 2020, compared to the three months ended September 30, 2019. The selected consolidated financial information contained herein for these periods has been derived from our unaudited interim consolidated financial statements and related notes.

For the three-month period ended September 30, 2019, KITS owned KCTI for the entire period and as such there is no pro forma provided for this period.

#### *Revenue*

Revenue increased by 68.2% to \$20,201 in the three months ended September 30, 2020, compared to \$12,007 in the three months ended September 30, 2019. The increase in revenue was primarily attributable to higher order volumes driven by (i) growth in online spending on eyecare, a shift accelerated by COVID-19, and (ii) increased marketing efforts.

#### *Gross Profit*

Gross profit increased by 76.3% to \$5,941 in the three months ended September 30, 2020, compared to \$3,369 in the three months ended September 30, 2019. The change was primarily driven by an increase in revenue which was attributable to higher order volumes and improvements in product sourcing.

Gross profit margin increased to 29.4% of revenue in the three months ended September 30, 2020, compared to 28.1% in the three months ended September 30, 2019. The increase in gross profit margin was primarily driven by lower product costs incurred as the Company benefited from a shift in sourcing strategy to increase our inventory levels, offset by discounts provided to attract subscribers to our Autoship program and build our glasses sales.

#### *Fulfillment*

Fulfillment expense as a percentage of revenue increased by 2.8% to 10.5% in the three months ended September 30, 2020, compared to 7.7% in the three months ended September 30, 2019, due to higher order volumes and increased costs related to COVID-19 operational adjustments to address carrier delays, and health and safety distancing requirements.

#### *Marketing*

Marketing expense as a percentage of revenue increased by 3.3% to 9.9% in the three months ended September 30, 2020, compared to 6.6% in the three months ended September 30, 2019. The increase in marketing costs was primarily due to increased spending on marketing channels and payroll and related expenses for personnel engaged in marketing and selling activities.

#### *General and administrative expenses*

General and administrative expenses increased by 136.9% to \$623 in the three months ended September 30, 2020, compared to \$263 in the three months ended September 30, 2019. The increase was driven by expenses related to the expansion of our team, technology development costs, and costs associated with preparing for an initial public offering.

#### *EBITDA and Adjusted EBITDA*

EBITDA decreased by \$293 to \$1,056 and Adjusted EBITDA increased by 24.7% to \$1,718 in the three months ended September 30, 2020, compared to \$1,056 and \$1,378 in the three months ended September 30, 2019, respectively primarily due to the factors discussed above.

Adjusted EBITDA as a percentage of revenue is 8.5% in the three months ended September 30, 2020, compared to 11.5% in the three months ended September 30, 2019. The decrease was primarily the result of higher fulfillment, marketing, and general and administrative costs, offset partially by improvements in gross profit margin as a percentage of net revenue as discussed above.

#### *Finance costs and Other expenses*

Finance costs in the three months ended September 30, 2020, decreased to \$525 from \$610 in the three months ended September 30, 2019, primarily due to lower interest expense.

Other expenses in the three months ended September 30, 2020, increased to \$157 from \$35 in the three months ended September 30, 2019, driven by an estimated accrued one-time bonus fee of \$135 payable to BDC which is due upon maturity or completion of the Offering, at the option of BDC.

#### *Income Taxes*

Income taxes increased by \$153 to \$165 in the three months ended September 30, 2020, compared to \$12 in the corresponding quarter of the previous year, as a result of a reduction of tax-deductible expenses incurred during the period within the operating entity.

#### *Net Income (loss)*

Net loss was \$132 in the three months ended September 30, 2020, a decrease of \$417 compared to net income of \$285 in the three months ended September 30, 2019. The decrease is primarily due to higher marketing and fulfillment expenses.

### **Nine Months Ended September 30, 2020, Compared to Nine Months Ended September 30, 2019, and Unaudited Pro Forma Combined Nine Months Ended September 30, 2019**

The following section provides an overview of our financial performance during the nine months ended September 30, 2020, compared to the nine months ended September 30, 2019. The selected consolidated financial information contained herein for the nine months ended September 30, 2020, and the nine months ended September 30, 2019, has been derived from our unaudited interim consolidated financial statements and related notes.

No revenue or expenses were generated by the Company in the period from January 1, 2019, to April 4, 2019, the period within the nine months ended September 30, 2019, prior to the closing of the Acquisition on April 5, 2019. Accordingly, the nine months ended September 30, 2020, compared to the nine months ended September 30, 2019, may not be directly comparable as changes in the comparative periods in each of the categories in the discussion to follow will be attributable to the lack of revenue or expenses generated in the non-operating period from January 1, 2019, to April 4, 2019.

For the purpose of aiding in the comparison to the nine-month period ended September, 2020, we have prepared Unaudited Pro Forma Combined Supplemental Financial Information for the nine-month period ended September 30, 2019, which gives effect to the Acquisition as if it had occurred on January 1, 2019. See Page F-58 of this prospectus.

#### *Revenue*

Revenue increased by 126.8% to \$54,934 in the nine months ended September 30, 2020, compared to \$24,224 in the nine months ended September 30, 2019. Revenue increased by 47.4% to \$54,934 in the nine months ended September 30, 2020, compared to \$37,273 in the Unaudited Pro Forma Combined Nine Months ended September 30, 2019.

The increase in revenue was primarily attributable to higher order volumes driven by (i) growth in online spending on eyecare, a shift accelerated by COVID-19, and (ii) increased marketing efforts.

#### *Gross Profit*

Gross profit increased by 142.4% to \$16,652 in the nine months ended September 30, 2020, compared to \$6,870 in the nine months ended September 30, 2019. Gross profit increased by 71.3% to \$16,652 in the nine months ended September 30, 2020, compared to \$9,723 in the Unaudited Pro Forma Combined Nine Months ended September 30, 2019. The change was primarily driven by an increase in order volumes and improvements in product sourcing.

Gross profit margin increased to 30.3% of revenue in the nine months ended September 30, 2020, compared to 28.4% in the nine months ended September 30, 2019. Gross profit margin increased to 30.3% of revenue in the nine months ended September 30, 2020, compared to 26.1% in the Unaudited Pro Forma Combined Nine Months ended September 30, 2019.

The increase in gross profit margin was primarily driven by lower product costs incurred as the Company benefited from a shift in sourcing strategy to increase our inventory levels, offset by discounts provided to attract subscribers to our Autoship program and build our glasses sales.

### *Fulfillment*

Fulfillment expense as a percentage of revenue increased by 2.7% to 9.8% in the nine months ended September 30, 2020, compared to 7.1% in the nine months ended September 30, 2019. Fulfillment expense as a percentage of revenue increased by 3.2% to 9.8% in the nine months ended September 30, 2020, compared to 6.6% in the Unaudited Pro Forma Combined Nine Months ended September 30, 2019.

The increase is due to higher order volumes, costs incurred as we transitioned from a third-party fulfillment provider to our own fulfillment facility for the majority of our shipments, and increased costs related to COVID-19 operational adjustments to address carrier delays and health and safety distancing requirements. We began ramping up our own fulfillment facility in October 2019, however until April 2020 we maintained redundant capabilities through a third-party fulfillment provider as we scaled up our in-house capabilities. This resulted in higher fulfillment costs as we were incurred expenses associated with maintaining fulfillment capacity at two centres for this transition period.

### *Marketing*

Marketing expense as a percentage of revenue increased by 1.1% to 9.8% in the nine months ended September 30, 2020, compared to 8.7% in the nine months ended September 30, 2019. Marketing expense as a percentage of revenue increased by 2.2% to 9.8% in the nine months ended September 30, 2020, compared to 7.6% in the Unaudited Pro Forma Combined Nine Months ended September 30, 2019.

The increase was primarily due to higher paid advertising expenses and the expansion of our marketing team.

### *General and administrative expenses*

General and administrative expenses increased by 150.4% to \$1,873 in the nine months ended September 30, 2020, compared to \$748 in same period in 2019. General and administrative expenses increased by 63.3% to \$1,873 in the nine months ended September 30, 2020, compared to \$1,147 in the Unaudited Pro Forma Combined Nine Months ended September 30, 2019.

The increase was driven by expenses related to the expansion of our team, technology development costs, and costs associated with preparing for an initial public offering.

### *EBITDA and Adjusted EBITDA*

EBITDA increased by \$1,553 to \$3,751 in the nine months ended September 30, 2020, compared to \$2,218 in the nine months ended September 30, 2019. EBITDA increased by \$586 to \$3,751 compared to \$3,165 in the nine months ended September 30, 2020, compared to \$3,165 in the Unaudited Pro Forma Combined Nine Months ended September 30, 2019.

Adjusted EBITDA increased by 91.7% to \$4,768 in the nine months ended September 30, 2020, compared to \$2,487 in the nine months ended September 30, 2019. Adjusted EBITDA increased by 50.6% to \$4,768 in the nine months ended September 30, 2020, compared to \$3,165 in the Unaudited Pro Forma Combined Nine Months ended September 30, 2019.

The increase in EBITDA and Adjusted EBITDA is primarily due to the factors discussed above.

Adjusted EBITDA as a percentage of revenue is 8.7% in the nine months ended September 30, 2020, compared to 10.3% in the nine months ended September 30, 2019. The decrease was primarily the result of higher fulfillment, marketing, and general and administrative costs, offset partially by improvements in gross profit.

Adjusted EBITDA as a percentage of revenue is 8.7% in the nine months ended September 30, 2020, compared to 8.5% in the Unaudited Pro Forma Combined Nine Months ended September 30, 2019. The increase is primarily the result of higher fulfillment, marketing, and general and administrative costs, offset partially by improvements in gross profit margin as a percentage of net revenue as discussed above.

### *Finance costs and Other expenses*

Finance costs in the nine months ended September 30, 2020, increased to \$2,055 from \$1,212 in the nine months ended September 30, 2019. Finance costs in the nine months ended September 30, 2020, increased to \$2,055 from \$1,824 in the Unaudited Pro Forma Combined Nine Months ended September 30, 2019.

The increase is primarily due to higher interest and additional fair value loss related to the Class A and C preferred shares liability recognized within the nine months ended September 30, 2020.

Other expenses in the nine months ended September 30, 2020, increased to \$284 from \$70 in the nine months ended September 30, 2019. Other expenses in the nine months ended September 30, 2020, increased to \$284 from \$108 in the Unaudited Pro Forma Combined Nine Months ended September 30, 2019. The increase is driven by an estimated accrued one-time bonus fee payable to BDC which is due upon maturity or completion of the Offering.

#### *Income Taxes*

Income taxes increased by \$535 to \$559 in the nine months ended September 30, 2020, compared to \$24 in the corresponding period of the previous year, as a result of an increase in net income before taxes and a reduction of tax-deductible expenses during the period. The increase was offset by a full nine-months of deferred income tax recovery recognized from the intangible assets as a result of the Acquisition.

Income taxes increased by \$472 to \$559 in the nine months ended September 30, 2020, compared to \$87 for the Unaudited Pro Forma Combined Nine Months ended September 30, 2019, as a result of higher taxable earnings and lower tax-deductible expenses.

#### *Net Income (loss)*

Net loss was \$367 in the nine months ended September 30, 2020, a decrease of \$499 compared to net income of \$132 in the nine months ended September 30, 2019. While there was an increase in operating income in the nine months ended September 30, 2020, compared to the nine months ended September 30, 2019, this increase was offset by the increase in finance costs, primarily due to additional periods of interest expense recognized in the nine months ended September 30, 2020, and an increase in fair value loss recognized on the Class A and C preferred shares liability, and a reduction of tax-deductible expenses during the period.

Net loss was \$367 in the nine months ended September 30, 2020, an increase in net loss of \$312 compared to net loss of \$55 in the Unaudited Pro Forma Combined Nine Months ended September 30, 2019. This was due primarily to an increase of \$472 in income taxes during the nine months ended September 30, 2020, that offset the increase of \$160 in income before income taxes for nine months ended September 30, 2020.

#### **Year Ended December 31, 2019, and Unaudited Pro Forma Combined Year Ended 2019, Compared to Predecessor's Year Ended December 2018**

The Company was incorporated on October 19, 2018, and did not have any operations or conduct any business in 2018. Accordingly, the comparison of year ended December 31, 2019, to year ended December 31, 2018, is not meaningful. However, we discuss year ended December 31, 2019, results compared to the Predecessor's year ended December 31, 2018, and the Unaudited Proforma Combined Year ended December 31, 2019 results compared to the Predecessor's year ended December 31, 2018, in the discussion to follow. See Page F-58 of this prospectus.

#### *Revenue*

Revenue decreased by 22.5% or \$10,723 to \$36,897 in the year ended December 31, 2019, compared to \$47,620 in Predecessor's year ended 2018. The decrease in revenue was primarily attributable to no revenue being recorded from the 2019 Pre-Acquisition Period within year ended December 31, 2019.

When making pro forma adjustments in the Predecessor results in the Unaudited Pro Forma Combined Year Ended December 31, 2019, revenue increased by 4.9% to \$49,946 in year ended December 31, 2019, compared to \$47,620 in Predecessor year ended December 31, 2018. The increase in revenue is primarily attributable to higher order volumes driven by (i) increased marketing efforts, (ii) improvements in our site and mobile experience, and (iii) a 2.4% strengthening in the USD/CAD.

2019 was a transition year, as the Company acquired KCTI and both management teams dedicated significant efforts on both the transaction and subsequent integration.

### *Gross Profit*

Gross profit decreased by 18.1% to \$10,812 in year ended December 31, 2019, compared to \$13,197 in Predecessor's year ended December 31, 2018. The change was primarily due to the exclusion of the 2019 Pre-Acquisition Period results. The Unaudited Pro Forma Combined Year Ended December 31, 2019, gross profit increased by 3.5% from \$13,197 in Predecessor year ended December 31, 2018, to \$13,665. The change was primarily driven by the higher order volumes offset by an increase in cost of goods sold over the same period.

Gross profit margin increased to 29.3% of revenue in the year ended December 31, 2019, compared to 27.7% in Predecessor's year ended December 31, 2018. The increase in gross profit margin was primarily driven by lower product costs incurred as the Company transitioned from primarily using third party fulfillment to opening our own fulfillment centre and made changes in other vendor relationships.

Gross profit margin decreased to 27.4% of revenue in the Unaudited Pro Forma Combined Year Ended 2019, compared to 27.7% in Predecessor's year ended December 31, 2018, due to higher discounts being provided to customers which was partially offset by lower product costs incurred.

### *Fulfillment*

Fulfillment expense as a percentage of revenue increased by 2.0% to 7.4% in year ended December 31, 2019, compared to 5.4% in Predecessor's year ended December 31, 2018, due to higher daily order volumes, higher charges associated with third party fulfillment, costs associated with the transition to our own fulfillment centre, and costs associated with increasing our customer service capabilities. These increased costs were partially offset by the 2019 Pre-Acquisition Period costs not being contained in year ended December 31, 2019.

In the Unaudited Pro Forma Combined Year Ended December 31, 2019, fulfillment expense as a percentage of revenue increased by 0.5% to 7.4% compared to 6.9% in Predecessor's year ended December 31, 2018, due to higher daily order volumes, higher charges associated with third party fulfillment, costs associated with the transition to our own fulfillment centre, and costs associated with increasing our customer service capabilities. We began ramping up our own fulfillment facility in October 2019, however until April 2020 we maintained redundant capabilities through a third-party fulfillment provider as we scaled up our in-house capabilities. This resulted in higher fulfillment costs in 2019 as we were incurred expenses associated with maintaining fulfillment capacity at two centres for this transition period.

### *Marketing*

Marketing expense as a percentage of revenue increased by 4.0% to 8.6% in year ended December 31, 2019, compared to 4.6% in Predecessor's year ended December 31, 2018. In the Unaudited Pro Forma Combined Year Ended 2019, marketing expense as a percentage of revenue increased by 0.8% to 8.6% compared to 7.8% in Predecessor's year ended December 31, 2018. The increases in both comparison periods is due to a one-time expense associated with building the KITS brand assets and higher paid advertising expenses.

### *General and Administrative Expenses*

General and administrative expenses decreased by 6.8% to \$1,581 in year ended December 31, 2019, compared to \$1,697 in Predecessor's year ended December 31, 2018. In the Unaudited Pro Forma Combined Year Ended December 31, 2019, general and administrative expense increased by 16.5% to \$1,977 compared to \$1,697 in Predecessor's year ended December 31, 2018. Changes in both sets of comparative periods was driven by higher wages associated with increased headcount as we expanded management and operations personnel and rental costs associated with our corporate headquarters in Vancouver leased April 1, 2019. During year ended December 31, 2019, this increase in expenses is more than offset by the 2019 Pre-Acquisition Period general and administrative expenses not captured in year ended December 31, 2019.

### *EBITDA and Adjusted EBITDA*

EBITDA decreased by \$3,458 to \$3,238 in year ended December 31, 2019, compared to \$6,696 in Predecessor's year ended December 31, 2019, primarily due to the factors discussed above, including the 2019 Pre-Acquisition Period not being captured in the year ended December 31, 2019 financials. In the Unaudited Pro Forma Combined Year Ended December 31, 2019, EBITDA decreased by \$2,508 to \$4,188 from \$6,696 in Predecessor's year ended December 31, 2018. These changes were primarily due to the factors discussed above.

Adjusted EBITDA decreased by 45.6% to \$3,643 in year ended December 31, 2019, compared to \$6,696 in Predecessor's year ended December 31, 2018, primarily due to the factors discussed above, including the 2019 Pre-Acquisition Period not being captured in the year ended December 31, 2019 financials. In the Unaudited Pro Forma Combined Year Ended December 31, 2019, Adjusted EBITDA decreased by \$2,370 or 35.4% to \$4,326 from \$6,696 in Predecessor's year ended December 31, 2018. Adjusted EBITDA as a percentage of revenue is 9.9% in year ended December 31, 2019, 8.5% in the Unaudited Pro Forma Combined Year Ended December 31, 2019, and 14.1% in Predecessor's year ended December 31, 2018. These changes were primarily due to the factors discussed above.

#### *Finance Costs and Other Expenses*

Finance costs in year ended December 31, 2019, increased to \$1,821 from finance income of \$24 in Predecessor's year ended December 31, 2018, primarily due to interest expense associated with the BDC Loan (please refer to "Indebtedness") and interest expense associated the Class B preferred shares (please refer to "Financial Instruments"). For the Unaudited Pro Forma Combined Year Ended December 31, 2019, finance costs were \$2,433. This is 33.6% higher than year ended December 31, 2019, due to the inclusion of the interest expenses associated with the BDC Loan and Class B preferred shares which were assumed to have been incurred as if the Acquisition had occurred on January 1, 2019.

Other expenses in year ended December 31, 2019, were \$108, compared to \$146 in the Unaudited Pro Forma Combined Year Ended December 31, 2019, representing an increase of 260.0% and 386.7% respectively, compared to \$30 in Predecessor's year ended December 31, 2018, driven by an increase in estimated sales taxes payable.

#### *Income Taxes*

Income taxes decreased by \$2,185 to \$37 in year ended December 31, 2019, compared to \$2,222 in Predecessor's year ended December 31, 2018, as a result of (i) lower taxable earnings, (ii) a recognition of income tax recovery of \$275 related primarily to the deferred tax liability on the intangible assets recognized, and (iii) income tax recovery of \$126 recognized due to a reduction in tax expenses incurred in respect of prior periods. Income taxes decreased by \$2,122 to \$100 in Unaudited Pro Forma Combined Year Ended December 31, 2019, compared to \$2,222 in Predecessor's year ended December 31, 2018, for primarily the same reasons.

The statutory income tax rates for year ended December 31, 2019, and Predecessor's year ended December 31, 2018, were 27% and 26.5%, respectively. The effective income tax rates for year ended December 31, 2019, and Predecessor's year ended December 31, 2018, were 41.1% and 33.3%, respectively. The higher rate in year ended December 31, 2019, was due to the impact of a deferred tax liability on the intangible assets recognized as a result of the Acquisition.

#### *Net Income (loss)*

Net income was \$53 in year ended December 31, 2019, 98.8% lower compared to net income of \$4,444 in Predecessor's year ended December 31, 2018. This was primarily attributable to no earnings being recorded from the 2019 Pre-Acquisition Period within the year ended December 31, 2019.

The Unaudited Pro Forma Combined Year Ended December 31, 2019, net loss was \$131 which was 102.9% lower than Predecessor's year ended December 31, 2018 net income. The decrease is primarily attributable to the increased expenses incurred during the period to expand and grow the scale of the Company's operations.

### **Predecessor's Year Ended December 31, 2018, Compared to Predecessor's Year Ended December 2017**

The following section provides an overview of financial performance during Predecessor's year ended December 31, 2018, compared to Predecessor's year ended December 31, 2017.

#### *Revenue*

Revenue increased by 10.9% to \$47,620 in Predecessor's year ended December 31, 2018, compared to \$42,951 in Predecessor's year ended December 31, 2017. The increase in revenue was primarily attributable to higher order volumes driven by focused direct marketing efforts.

### *Gross Profit*

Gross profit increased by 12.3% to \$13,197 in Predecessor's year ended December 31, 2018, compared to \$11,754 in Predecessor's year ended December 31, 2017. The change was primarily driven by an increase in order volumes.

Gross profit margin increased to 27.7% of revenue in Predecessor's year ended December 31, 2018, compared to 27.4% in Predecessor's year ended December 31, 2017. The increase in gross profit margin was primarily driven by a combination of slightly higher selling prices and lower product costs incurred.

### *Fulfillment*

Fulfillment expense as a percentage of revenue increased by 1.3% to 5.4% in Predecessor's year ended December 31, 2018, compared to 4.1% in Predecessor's year ended December 31, 2017, primarily due to higher order volumes, shipping charges, and payment processing fees.

### *Marketing*

Marketing expense as a percentage of revenue increased by 0.2% to 4.6% in Predecessor's year ended December 31, 2018, compared to 4.4% in Predecessor's year ended December 31, 2017. The increase was primarily due to increased spending on paid advertising to drive higher revenue.

### *General and Administrative Expenses*

General and administrative expenses increased by 108.2% to \$1,697 in Predecessor's year ended December 31, 2018, compared to \$815 in Predecessor's year ended December 31, 2017. The increase was driven by a realized loss on foreign exchange and higher professional fees.

### *EBITDA / Adjusted EBITDA*

EBITDA and Adjusted EBITDA decreased by 7.9% to \$6,696 in Predecessor's year ended December 31, 2018, compared to \$7,273 in Predecessor's year ended December 31, 2017, primarily due to the factors discussed above.

Adjusted EBITDA as a percentage of revenue is 14.1% in Predecessor's year ended December 31, 2018, compared to 16.9% in Predecessor's year ended December 31, 2017. This decrease was primarily due to the factors discussed above.

### *Finance costs and Other Expenses*

Finance income was \$24 in Predecessor's year ended December 31, 2018, unchanged from \$24 in Predecessor's year ended December 31, 2017.

Other expenses in Predecessor's year ended December 31, 2018, were \$30, up from \$nil in Predecessor's year ended December 31, 2017, due to recognition of \$30 of estimated sales taxes payable.

### *Income Taxes*

Income taxes increased by \$374 to \$2,222 in Predecessor's year ended December 31, 2018, compared to \$1,848 in Predecessor's year ended December 31, 2017, as a result of an increase in non-deductible expenses recognized in Predecessor's year ended December 31, 2018.

The statutory income tax rates for Predecessor's year ended December 31, 2017, and Predecessor's year ended December 31, 2018, were 26.5%. The effective income tax rates for Predecessor's year ended December 31, 2017, and Predecessor's year ended December 31, 2018, were 25.7% and 33.3%, respectively. The higher rate in Predecessor's year ended December 31, 2018, was due to the impact of an increase in taxable earnings as a result of an increase in non-deductible expenses.

### *Net Income*

Net income is \$4,444, 17.0% lower compared to net income of \$5,356 in Predecessor's year ended December 31, 2017. This is due primarily to an increase in fulfillment, marketing and general and administrative expenses during the period to drive higher revenue.

## Quarterly Results and Performance Measures

The following table summarizes the results of KITS' operations for the last eight most recently completed quarters. This unaudited quarterly information, other than comparable sales growth, has been prepared in accordance with IFRS.

CAD \$000s, unless otherwise noted	Summary of Quarterly Results						Predecessor	
	September 30, 2020	June 30, 2020	March 31, 2020	December 31, 2019	September 30, 2019	June 30, 2019 (a)	March 31, 2019	December 31, 2018
Revenue.....	\$ 20,201	\$ 20,322	\$ 14,412	\$ 12,673	\$ 12,007	\$ 12,218	\$ 12,531	\$ 11,036
Net income (loss).....	\$ (132)	\$ 221	\$ (456)	\$ (79)	\$ 285	\$ (153)	\$ 652	\$ 644
Net income per share								
Basic.....	\$ (0.03)	\$ 0.06	\$ (0.11)	\$ (0.02)	\$ 0.07	\$ (0.05)	\$ 1,775.02	\$ 2,143.66
Diluted.....	\$ (0.03)	\$ 0.04	\$ (0.11)	\$ (0.02)	\$ 0.04	\$ (0.05)	\$ 1,775.02	\$ 2,143.66
<i>Adjusted for Share Split:</i>								
Weighted average number of shares								
Basic.....	9,200,000	9,200,000	9,200,000	9,200,000	9,200,000	7,163,934	300	300
Diluted (b) .....	9,200,000	23,000,000	9,200,000	9,200,000	23,000,000	7,163,934	300	300
Net income per share								
Basic.....	\$ (0.01)	\$ 0.02	\$ (0.05)	\$ (0.01)	\$ 0.03	\$ (0.02)	\$ 1,775.02	\$ 2,143.66
Diluted.....	\$ (0.01)	\$ 0.02	\$ (0.05)	\$ (0.01)	\$ 0.02	\$ (0.02)	\$ 1,775.02	\$ 2,143.66
<i>Prior to Share Split:</i>								
Weighted average number of shares								
Basic.....	4,000,000	4,000,000	4,000,000	4,000,000	4,000,000	3,114,754	300	300
Diluted (b) .....	4,000,000	10,000,000	4,000,000	4,000,000	10,000,000	3,114,754	300	300
Net income per share								
Basic.....	\$ (0.03)	\$ 0.06	\$ (0.11)	\$ (0.02)	\$ 0.07	\$ (0.05)	\$ 1,775.02	\$ 2,143.66
Diluted.....	\$ (0.03)	\$ 0.04	\$ (0.11)	\$ (0.02)	\$ 0.04	\$ (0.05)	\$ 1,775.02	\$ 2,143.66
Average US\$/Canadian dollar exchange rate (c) .....	\$ 1.3326	\$ 1.3865	\$ 1.3432	\$ 1.3199	\$ 1.3205	\$ 1.3376	\$ 1.3297	\$ 1.3218

### Notes:

- Notes to unaudited pro forma presentation: Successor - June 30, 2019, does not include Predecessor's revenue, net income and net income per share for period between April 1 to 4, 2019.
- An additional 13,800,000 of converted non-redeemable Class B preferred shares are included in the diluted weighted average number of shares only when such shares are not anti-dilutive in nature.
- Average US\$/Canadian dollar exchange rate is the average of Bank of Canada daily noon rates based on calendar days within the quarter.

### Discussion

Revenue is typically highest in the fourth quarter as we offer seasonal promotions and customers maximize the annual usage of their health and flexible spending accounts.

### Revenue

Over the last eight quarters, revenue has been impacted by the following:

- acquisition of KCTI in the second quarter of year ended December 31, 2019;
- growth in orders and new customers beginning the second quarter of 2020 driven by COVID-19 related consumer behaviour;
- successful launch of Kits.com and Kits.ca sites and amalgamation of some of our other web properties;
- rollout of our own KITS-branded glasses offering; and
- introduction of our Autoship subscription service in the first quarter of 2020.

### Net Income (loss)

Net income has been affected by the following factors over the last eight quarters:

- impact of the items noted in revenue above;
- increase and timing of our investment in brand, marketing, and personnel to support our brand launch, corporate growth, and expanded operating capabilities;
- opening of our fulfillment and optical lab centres;

- impact of foreign exchange on our revenue and costs;
- increased finance costs associated with debt and preferred shares raised in connection with the Acquisition; and
- transaction costs associated with the Acquisition and in relation to this Offering.

### **Non-IFRS Measures and Industry Metrics**

In addition to our results determined in accordance with IFRS, we believe the following non-IFRS measures provide useful information both to management and investors in measuring the financial performance and financial condition of the Company for the reasons outlined below. These measures do not have a standardized meaning prescribed by IFRS and therefore they may not be comparable to similarly titled measures presented by other publicly traded companies, and they should not be construed as an alternative to other financial measures determined in accordance with IFRS.

Management uses these non-IFRS financial measures to exclude the impact of certain expenses and income that management does not believe are reflective of the Company's underlying operating performance and make comparisons of underlying financial performance between periods difficult. From time to time, the Company may exclude additional items if it believes doing so would result in a more effective analysis of underlying operating performance.

Run-Rate Revenue, EBITDA, Adjusted EBITDA, and Adjusted EBITDA Margin are financial measures that are not defined under IFRS. We use these non-IFRS financial measures, and believe they enhance an investor's understanding of our financial and operating performance from period to period, because they exclude certain material non-cash items and certain other adjustments we believe are not reflective of our ongoing operations and our performance. Accordingly, we use these metrics to measure our core financial and operating performance for business planning purposes and as a component in the determination of incentive compensation for salaried employees.

In addition, we believe Run-Rate Revenue, EBITDA, Adjusted EBITDA, and Adjusted EBITDA Margin are measures commonly used by investors to evaluate companies in the e-commerce industry. However, they are not presentations made in accordance with IFRS and the use of the terms Run-Rate Revenue, EBITDA, Adjusted EBITDA, and Adjusted EBITDA Margin vary from others in our industry. These financial measures are not intended to represent and should not be considered as alternatives to net income, operating income or any other performance measures derived in accordance with IFRS as measures of operating performance or operating cash flows or as measures of liquidity.

Run-Rate Revenue, EBITDA, Adjusted EBITDA, and Adjusted EBITDA Margin have important limitations as analytical tools and you should not consider them in isolation or as substitutes for analysis of our results as reported under IFRS. For example, these financial measures:

- exclude certain tax payments that may reduce cash available to us;
- do not reflect any cash capital expenditure requirements for the assets being depreciated and amortized that may have to be replaced in the future;
- do not reflect changes in, or cash requirements for, our working capital needs;
- do not reflect the interest expense, or the cash requirements necessary to service interest or principal payments, on our debt; and
- other companies in our industry may calculate these measures differently than we do, limiting their usefulness as comparative measures.

We define Run-Rate Revenue as the revenue for the three months ended September 30, 2020 of \$20,201 multiplied by four, which equals \$80,804.

The tables below illustrate a reconciliation of Adjusted EBITDA and Adjusted EBITDA Margin for the periods presented:

	Successor					Predecessor			Unaudited Proforma	
	Nine Months ended September 30, 2020	Nine Months ended September 30, 2019	Three Months ended September 30, 2020	Three Months ended September 30, 2019	Year ended December 31, 2019 (a)	Period from January 1, 2019 to April 4, 2019	Fiscal Year ended December 31, 2018	Fiscal Year ended December 31, 2017	Unaudited Pro Forma Combined Nine Months ended September 30, 2019	Unaudited Pro Forma Combined Fiscal Year ended December 31, 2019
CAD \$000s, unless otherwise noted										
Reconciliation of Adjusted EBITDA.....										
Net income / (loss) for the period.....	\$ (367)	\$ 132	\$ (132)	\$ 285	\$ 53	\$ 380	\$ 4,444	\$5,356	\$ (55)	\$ (131)
Add back:										
Income taxes.....	559	24	165	12	37	218	2,222	1,848	87	100
Finance costs -net.....	2,055	1,212	525	610	1,821	(12)	(24)	(24)	1,824	2,433
Depreciation and amortization.....	1,504	850	498	442	1,327	10	54	93	1,309	1,786
EBITDA	3,751	2,218	1,056	1,349	3,238	596	6,696	7,273	3,165	4,188
Add back:										
Share-based compensation (b).....	504	-	326	-	130	-	-	-	-	130
One-time costs (c).....	513	269	336	29	275	-	-	-	-	8
Adjusted EBITDA.....	\$ 4,768	\$ 2,487	\$ 1,718	\$ 1,378	\$ 3,643	\$ 596	\$ 6,696	\$ 7,273	\$ 3,165	\$ 4,326
Revenue.....	\$ 54,934	\$ 24,224	\$ 20,201	\$ 12,007	\$ 36,897	\$ 13,049	\$ 47,620	\$ 42,951	\$ 37,273	\$ 49,946
Adjusted EBITDA Margin % (d).....	8.7%	10.3%	8.5%	11.5%	9.9%	4.6%	14.1%	16.9%	8.5%	8.7%

Notes:

- (a) Prior to April 5, 2019, KITS had no operations and beginning April 5, 2019, KITS consolidated the operations of KCTI.
- (b) Represents non-cash share-based compensation expense associated with Options that vested in the period.
- (c) In connection with the Acquisition and the filing of this prospectus, the Company incurred expenses related to professional fees, consulting, legal, and accounting that would otherwise not have been incurred and were directly related to these two matters. These fees are not indicative of the Company's ongoing costs and we expect they will discontinue following the completion of the Offering.
- (d) Represents Adjusted EBITDA divided by revenue from the same period.

## Financial Condition, Liquidity and Capital Resources

### Overview

The general objectives of our capital management strategy are to preserve our capacity to continue operating, provide benefits to our stakeholders and provide an adequate return on investment to our shareholders by selling our products at a price that is commensurate with the level of operating risk assumed by us. We thus determine the total amount of capital required consistent with risk levels. This capital structure is adjusted on a timely basis depending on changes in the economic environment and risks of the underlying assets. We are currently subject to working capital and minimum cash requirements through the BDC Loan Agreement.

Our primary need for liquidity is to fund working capital requirements of our business, capital expenditures, debt service and for general corporate purposes. Our primary source of liquidity is funds generated by operating activities. Our ability to fund our operations, to make planned capital expenditures, to make scheduled debt payments and to repay or refinance indebtedness depends on our future operating performance and cash flows, which are subject to prevailing economic conditions and financial, business and other factors, some of which are beyond our control.

### Working Capital

The Company's objectives in managing capital are to ensure sufficient liquidity to pursue its organic growth, to establish a strong capital base so as to satisfy its obligations towards its customers and creditors, as well as to provide an adequate return to shareholders.

Our primary source of cash flow is revenue from operations and debt financing. Our approach to managing liquidity is to ensure, to the extent possible, that we always have sufficient liquidity to meet our liabilities as they become due. We do so by monitoring cash flow and performing budget-to-actual analysis on a regular basis.

Working capital deficit as at September 30, 2020, was \$3,889. The Company operates on a negative working capital basis, similar to other e-commerce businesses, customers pay for purchases upfront and we deliver goods from inventory or from suppliers. Overall, on purchase and expenses, we have favorable payment terms from suppliers which provide us with a net source of cash from working capital. As such, the Company can grow without needing additional new capital to fund working capital. We believe that cash generated from our operations will be still be adequate to meet our capital requirements and operational needs for the next 12 months.

## Indebtedness

The Company entered into a secured loan agreement for \$23.4 million with BDC on March 26, 2019, with a repayment date of March 15, 2026. The BDC Loan bears interest at BDC's floating rate minus 1%, plus a variance of 2.95% per annum and is payable on a monthly basis. As at September 30, 2020, BDC's floating rate was 4.55% (2019: 6.05%). The BDC Loan is subordinated to the Company's credit card liabilities, senior to any other loans, and secured by the Company's assets.

The Company is subject to various covenants under the BDC Loan, including a requirement to maintain certain financial ratios. As at December 31, 2019, the Company failed to meet certain financial ratio requirements and classified the loan as current. The Company subsequently obtained a waiver from BDC and, on March 13, 2020, BDC amended various of the Company's debt covenants and ratios rendering the loan in good standing. In addition, the repayment schedule of the BDC Loan was revised to reflect a \$500 pre-payment made in March 2020, the balloon payment was reduced by the pre-payment amount to \$5,150, and upon maturity or an initial public offering of the Company, BDC is entitled to receive a one-time bonus payment of 0.3% of annual revenue. On September 30, 2020, BDC amended various of the Company's debt covenants and ratios, the one-time bonus payment, due upon maturity or an initial public offering of the Company, was revised to 0.45% of annual revenue from 0.3%, and the prepayment schedule was reset to start on October 1, 2020.

As at September 30, 2020 and the date of this prospectus, the BDC Loan is in good standing and the Company is in compliance with the debt covenants.

## Cash Flows

The following table presents cash and cash equivalents as at September 30, 2020 and 2019, as at December 31, 2019, 2018 and 2017 and as at April 4, 2019.

	Successor					Predecessor		
	Nine Months ended September 30, 2020	Nine Months ended September 30, 2019	Three Months ended September 30, 2020	Three Months ended September 30, 2019	Year ended December 31, 2019 (a)	Period from January 1, 2019 to April 4, 2019	Fiscal Year ended December 31, 2018	Fiscal Year ended December 31, 2017
CAD \$000s, unless otherwise noted								
Net cash provided by (used in) operating activities.....	\$ 2,660	\$ 1,609	\$ 489	\$ (450)	\$ 4,146	\$ 1,430	\$ 3,657	\$3,338
Net cash provided by (used in) financing activities.....	(3,643)	29,243	(1,254)	(472)	28,618	-	(4,000)	(5,000)
Net cash provided by (used in) investing activities.....	(162)	(29,037)	(66)	(89)	(29,268)	106	(2)	(10)
Increase (decrease) in cash	(1,145)	1,815	(831)	(1,011)	3,496	1,536	(345)	(1,672)
Cash and cash equivalents, end of period.....	\$ 1,826	\$ 1,794	\$ 1,826	\$ 1,794	\$ 3,398	\$ 4,401	\$ 2,898	\$3,086

### Notes:

- (a) Prior to April 5, 2019, KITS had no operations and beginning April 5, 2019, KITS consolidated the operations of KCTI.

## Analysis of Cash Flows for the Three and Nine Months ended September 30, 2020, Compared to Nine Months ended September 30, 2019

### Cash Flows from Operating Activities

Cash flows generated from operating activities increased by 65.3% or \$1,051 to \$2,660 in the nine months ended September 30, 2020, compared to \$1,609 in the nine months ended September 30, 2019. The increase in operating cash flows generated is primarily attributable to the close of the Acquisition in Q2 of 2019 resulting in an additional quarter of operating cash flows for the nine months ended September 30, 2020.

Cash flows generated from operating activities by the Predecessor for the period up to April 4, 2019, was \$1,430 for a combined total of \$3,039 of cash flows generated from operating activities for the nine months ended September 30, 2019. The decrease in the cash flows generated from operating activities for the nine-months ended September 30, 2020, of \$379 is mainly attributable to the increase in operating costs that were incurred to expand the operations and product lines.

Cash flows generated from operating activities increased by \$939 to \$489 in the three months ended September 30, 2020, compared to \$450 of cash flows used in operating activities in the three months ended September 30, 2019. The increase in operating cash flows is mainly attributable to an increase in sales and net earnings.

### *Cash Flows Used in Financing Activities*

Cash flows used in financing activities for the nine months ended September 30, 2020, was \$3,643 compared to cash flows generated from financing activities of \$29,243 for the nine months ended September 30, 2019.

The decrease in cash inflows from financing activities of \$32,886 was mainly due to proceeds received from the BDC Loan and issuance of share capital of \$23,166 and \$7,000, respectively, to support the Acquisition in 2019 offset by an increase in the periods of BDC Loan repayments and lease payments for the nine months ended September 30, 2020.

There were no cash flows used in financing activities by the Predecessor for the period up to April 4, 2019.

Cash flows used in financing activities increased by \$782 to \$1,254 in the three months ended September 30, 2020, compared to \$472 of cash flows used in financing activities in the three months ended September 30, 2019. The increase is due to repayment of the BDC Loan principal in the three months ended September 30, 2020, and lease payments for equipment and property. Based on the BDC Loan repayment schedule, we were required to pay both the principal and interest on the BDC Loan balance from March 2020. Agreements for the leased equipment and property were only signed subsequent to September 30, 2019.

### *Cash Flows Used in Investing Activities*

Cash flows used in investing activities decreased by 99.4% or \$28,875 to \$162 in the nine months ended September 30, 2020, compared to \$29,037 in the nine months ended September 30, 2019.

The decrease in cash flows used in investing activities of \$28,875 was mainly due to the \$28,275 of cash consideration paid in connection with the Acquisition in 2019 and a decrease in capital purchases of computer equipment and domain names in the nine months ended September 30, 2020.

Cash flows provided by investing activities by the Predecessor for the period up to April 4, 2019, was \$106 for a combined total of \$28,931 of cash flows generated used in investing activities for the nine months ended September 30, 2019. The decrease in cash flows used in activities of \$28,769 was mainly due to the cash consideration paid in connection with the Acquisition in 2019.

Cash flows used in investing activities decreased by \$23 to \$66 in the three months ended September 30, 2020, compared to \$89 of cash flows used in investing activities in the three months ended September 30, 2019. The decrease is primarily due to a decrease in capital purchases of computer equipment.

## **Analysis of Cash Flows for year ended December 31, 2019, Compared to year ended December 31, 2018**

### *Cash Flows from Operating Activities*

Cash flows generated from operating activities increased by 13.4% or \$489 to \$4,146 in Successor's year ended December 31, 2019, compared to \$3,657 in Predecessor's year ended December 31, 2018, mainly attributable to an increase in cash generated from working capital of \$1,706 which is a result of lower taxes payable and timing of cash received from sales and payments, offset by a lower net income recorded in Successor's year ended December 31, 2019.

Cash flows generated from operating activities by the Predecessor for the period up to April 4, 2019, was \$1,430 for a combined total of \$5,576 of cash flows generated from operating activities year ended December 31, 2019. The increase in cash flows generated from operating activities of \$1,919 when compared to the Predecessor's year ended December 31, 2018, is mainly attributable to an increase in cash generated from working capital which is a result of lower taxes payable and timing of cash received from sales and payment.

### *Cash Flows Used in Financing Activities*

Cash flows generated by financing activities increased by \$32,618 to \$28,618 in Successor's year ended December 31, 2019, compared to \$4,000 in Predecessor's year ended December 31, 2018, due to proceeds received from the BDC Loan and issuance of share capital of \$23,166 and \$7,000, respectively, to support the Acquisition in 2019 offset by no dividend payments made in 2019 to the shareholders of the Successor's year ended December 31, 2019.

There were no cash flows used in financing activities by the Predecessor for the period up to April 4, 2019.

#### *Cash Flows Used in Investing Activities*

Cash flows used in investing activities increased by \$29,266 to \$29,268 in Successor's year ended December 31, 2019, compared to \$2 in Predecessor's year ended December 31, 2018, was mainly due to the \$28,275 of cash consideration paid in connection with the Acquisition in 2019 and capital purchases of computer equipment and domain names.

Cash flows used in investing activities by the Predecessor for the period up to April 4, 2019, was \$106 for a combined total of \$29,162 of cash flows generated used in investing activities for Successor's year ended December 31, 2019. The decrease in cash flows used in investing activities of \$29,160 was mainly due to the cash consideration paid in connection with the Acquisition in 2019.

#### **Analysis of Cash Flows for Predecessor's year ended December 31, 2018, Compared to Predecessor's year ended December 31, 2017**

##### *Cash Flows from Operating Activities*

Cash flows generated from operating activities increased by 9.6% or \$319 to \$3,657 in Predecessor's year ended December 31, 2018, compared to \$3,338 in Predecessor's year ended December 31, 2017. The increase in operating cash flows generated is primarily attributable to an improvement in cash flow from working capital of \$1,208 which is a result of higher taxes payable and timing of cash received from sales, offset by a decrease net income of \$912.

##### *Cash Flows Used in Financing Activities*

Cash flows used in financing activities decreased by \$1,000 to \$4,000 in Predecessor's year ended December 31, 2018, compared to \$5,000 in Predecessor's year ended December 31, 2017, due to a decrease in dividends paid to the shareholders of the Predecessor.

##### *Cash Flows Used in Investing Activities*

Cash flows used in investing activities decreased by \$8 to \$2 in Predecessor's year ended December 31, 2018, compared to \$10 in Predecessor's year ended December 31, 2017, due to a decrease in the expenditures on property and equipment.

#### **Off-Balance Sheet Arrangements and Commitments**

We have no off-balance sheet arrangements. From time to time, we may be contingently liable with respect to litigation and claims that arise in the normal course of operations.

#### **Contractual Obligations**

The following table summarizes certain of our significant contractual obligations and other obligations as at September 30, 2020:

<b>Contractual obligations</b>	<b>Contractual cash flows</b>	<b>Less than 1 year</b>	<b>1-3 years</b>	<b>4-5 years</b>	<b>After 5 years</b>
Accounts payable and accrued liabilities	\$ 6,849	\$ 6,849	\$ -	\$ -	\$ -
Loan Principal amount	21,150	3,000	6,000	6,000	6,150
Loan Interest	4,656	1,284	1,985	1,207	180
Lease liability	1,280	281	500	413	86
	<u>\$ 33,935</u>	<u>\$ 11,414</u>	<u>\$ 8,485</u>	<u>\$ 7,620</u>	<u>\$ 6,416</u>

As of September 30, 2020, we had additional liabilities which included unfulfilled orders, sales returns, redeemable Class A and Class C preferred shares, dividends payable to non-redeemable Class B preferred shares, and deferred income tax liabilities. These long-term liabilities have not been included in the table above as the timing and amount of future payments are uncertain.

## Financial Instruments

The Company's financial instruments comprise of cash and cash equivalents, account receivables, accounts payable, accrued liabilities, the BDC Loan, redeemable Class A and Class C preferred shares and non-redeemable Class B preferred shares.

The carrying value of cash and cash equivalents, account receivables, accounts payable, and accrued liabilities approximate their fair value because of the short-term nature of these financial instruments. These financial instruments, the BDC Loan and non-redeemable Class B preferred shares are classified as financial assets and liabilities at amortized cost. The fair value of the BDC Loan and non-redeemable Class B preferred shares as at September 30, 2020, is \$21,150 and \$4,335, respectively. The fair value of the BDC Loan and non-redeemable Class B preferred shares is determined using a discounted cash flow method with Level 2 and Level 3 inputs, respectively, that considers the present value of expected payments, discounted using a risk-adjusted discount rate. Redeemable Class A and Class C preferred shares are classified as financial liabilities measured at fair value less cost to sell and are valued using Level 3 fair value inputs.

### *BDC Loan*

As of September 30, 2020, the carrying amount of the BDC Loan is \$21,002 (2019: \$23,199) which comprises of unamortized portion of deferred transaction costs of \$159 (2019: \$201, 2018: \$nil).

For the three and nine months ended September 30, 2020, the Company recognized \$365 and \$1,206 (2019: \$483 and \$945, respectively) of interest expense in finance costs. For the year ended December 31, 2019, the Company recognized \$1,428 (2018: \$nil) of interest expense in finance costs.

### *Redeemable Class A and Class C preferred shares*

On April 5, 2019, we issued 10,000 Class A and 300 Class C preferred shares with a par value of \$1,000 for each preferred share. These preferred shares are redeemable and retractable at \$1,000 per share, non-voting with a cumulative dividend at 8%. The holders of the preferred shares may convert the issued par value of the preferred shares into: (i) common shares of the Company at a price equal to 80% of the issuance price of future issuances of common shares of the Company at the time of such issuance; or (ii) debt due at the request of the holder or at the option of the Company, with written consent from BDC prior to the long-term debt maturity.

Since these shares are redeemable and the Company is obliged to pay annual dividends to the holders, these shares are recognized as financial liabilities (the "**Host Instrument**"). As the holders may convert these shares to common share of the Company, the conversion right is an embedded derivative that is closely related to the Host Instrument since the conversion right would modify the timing of the cash flows of the redemption and dividends payment. These shares are measured at fair value through profit/loss. Fair value gain/loss are recognized in finance costs.

The fair value of the Class A and C preferred shares was determined using a discounted cash flow method that considers the present value of expected value of the redemption feature, dividend payable and the conversion right, discounted using a risk-adjusted discount rate with an expected probability of occurrence. The estimated fair value would increase (or decrease) if: (i) the average risk adjusted discount rate were lower (or higher); or (ii) the probability of redemption decreased (or increased) or probability of exercising the conversion right increased (or decreased).

As at September 30, 2020, the fair value of the Class A and C preferred shares was \$10,674 (2019: \$10,276, 2018: \$nil) with incremental fair value loss recognized in finance costs. For the year ended December 31, 2019, the Company recognized a decrease of \$24 (2018: \$nil) in the fair value of the liability in finance costs.

### *Non-redeemable Class B preferred shares*

On April 5, 2019, the Company issued 7,000 Class B preferred shares with a par value of \$1,000 for each preferred share in exchange for \$7,000. These preferred shares are non-redeemable, non-retractable, each convertible into 1,971 3/7 common shares and entitled to 1,971 3/7 votes, and are entitled to a cumulative dividend of 8%.

Since the Company is obliged to pay annual dividends to the holder, dividends payable are recognized as liabilities. The initial fair value of the liability portion of the Class B preferred shares was determined by management using a discounted cash flow method that considers the present value of expected payments, discounted using a risk-adjusted discount rate. This was determined to be \$3,500. The liability is subsequently recognized on an amortized cost basis until extinguishment.

The remainder of the proceeds of \$3,500 are allocated to the conversion option and recognized in shareholders' equity and not subsequently remeasured.

As at September 30, 2020, the Company had recognized liability and dividends payable to the holders of the non-redeemable Class B preferred shares of \$4,335 (2019: \$3,914) with incremental interest expense of \$420 recognized in finance costs. As at December 31, 2019, the Company had recognized liability and dividends payable to the holders of the non-redeemable Class B preferred shares of \$3,914 (2018: \$nil) with incremental interest expense of \$414 recognized in finance costs.

### **Quantitative and Qualitative Disclosures about Market Risk**

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

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

#### *Foreign Exchange Risks*

The presentation currency for our consolidated financial statements is the Canadian dollar. Because we recognize sales in the United States in U.S. dollars, if the U.S. dollar weakens against the Canadian dollar it would have a negative impact on our U.S. operating results upon translation of those results into Canadian dollars for the purposes of financial statement consolidation. We may face similar risks in other foreign jurisdictions where sales are recognized in foreign currencies.

#### *Interest Rate Risks*

We are exposed to changes in interest rates on our cash and cash equivalents, loans and borrowings. Debt issued at variable rates exposes us to cash flow interest rate risk. During the period, we had a variable interest rate loan.

#### *Credit Risks*

Credit risk refers to the possibility that we can suffer financial losses due to the failure of our counterparties to meet their payment obligations. We are exposed to minimal credit risk. We do not extend credit to customers but do have some receivables exposure with respect to payment processors transferring customer funds to us and to rebates receivable from our vendors. In order to reduce this risk, we use industry leading payment processors, including Chase Paymentech, American Express, and Paypal. We deposit our cash and cash equivalents with major financial institutions that have been assigned high credit ratings by internationally recognized credit rating agencies. We do not have any derivative contracts.

#### *Liquidity Risk*

Liquidity risk is the risk that we cannot meet a demand for cash or fund our obligations as they come due. We manage liquidity risk by continuously monitoring actual and projected cash flows, taking into account the seasonality of our revenue, income and working capital needs.

### **Related Party Transactions**

The Company enters into transactions from time to time with its Principal Shareholders (as defined below) and organizations affiliated with members of its Board by incurring expenses for business services. During the three and nine months ended September 30, 2020, the Company has paid rent of \$19 and \$57 (2019: \$19 and \$32) to 18609694 Ontario Inc., a company owned by the one of the Principal Shareholders of the Company. During the three and nine months ended September 30, 2020, the Company has paid rent of \$30 and \$90 (2019: \$30 and \$90) to 0999849 BC Inc., a company under common control of one of the Principal Shareholders of the Company. These amounts have been included in other general and administrative expenses and are part of the Company's ordinary course of business. The contract terms are based on market rates for these types of services and amounts are payable on a monthly basis for the duration of the contract.

During the three and nine months, the Company reimbursed Oak Ridges Vision Center Inc., a company owned by one of the Principal Shareholders of the Company for purchased inventory of \$56 and \$nil (2019: \$nil and \$nil). These amounts had been included in cost of sales and are based on market/third party invoiced rates for the inventory purchased.

#### *Key management compensation*

Key management consists of the Board, the Chief Executive Officer, and the executives who report directly to the Chief Executive Officer.

CAD \$000s, unless otherwise noted	For the three months ended September 30,		For the nine months ended September 30,		Year ended December 31	
	2020	2019	2020	2019	2019	2018
Wages and short-term employee benefits.....	\$ 179	\$ 165	\$ 544	\$ 327	\$ 508	\$ -
Share-based compensation .....	165	-	252	-	125	-
<b>Total compensation expense .....</b>	<b>\$344</b>	<b>\$ 165</b>	<b>\$ 796</b>	<b>\$ 327</b>	<b>\$ 633</b>	<b>\$ -</b>

#### **Subsequent Events**

Refer to the “Our History” section of this prospectus for details.

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

Our Financial Statements have been prepared in accordance with IFRS as issued by the International Account Standards Board (“IASB”). The preparation of our financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and are based on a set of underlying data that may include our historical experience, knowledge of current events and conditions and other factors that are believed to be reasonable under the circumstances. We continually evaluate the estimates and judgments used in the preparation of the financial statements. Actual results could differ from these estimates. Areas requiring the most significant estimates and judgments are outlined below.

#### *Business combinations*

We apply judgement in the assessment of whether or not the net assets acquired constitute a business. In making this assessment we considered the underlying economic substance of the Acquisition and, also, where appropriate the application of the optional ‘concentration test’ to aid the assessment of whether a transaction represents a business combination or is simply in substance the purchase of a single of asset or group of similar assets.

In a business combination, the identifiable assets acquired and liabilities assumed will be recognized at their fair values. The information necessary to measure the fair values as at the acquisition date of assets acquired and liabilities assumed requires us to make certain judgements and estimates about future events, including but not limited to estimates of future earnings, future operating costs and capital expenditures, and discount rates.

#### *Inventories*

In estimating net realizable value of inventory, we use estimates related to fluctuations in inventory levels, planned production, customer behavior, obsolescence, future selling prices, and costs necessary to sell the inventory.

#### *Leases*

We exercise judgment when contracts are entered into that may give rise to a right-of-use asset that would be accounted for as a lease and determining the appropriate lease term on a lease-by-lease basis. Changes in the economic environment or changes in the retail industry may impact the assessment of the lease term and any changes in the estimate of lease terms may have a material impact on the Company’s consolidated statements of financial position.

The critical assumptions and estimates used in determining the present value of future lease payments require us to estimate the incremental borrowing rate specific to each leased asset or portfolio of leased assets. We determine the incremental borrowing rate of each leased asset or portfolio of leased assets by incorporating the Company’s

creditworthiness, the security, term, and value of the underlying leased asset, and the economic environment in which the leased asset operates. The incremental borrowing rates are subject to change mainly due to macroeconomic changes in the environment.

*Impairment of non-financial assets (goodwill, intangible assets, property, plant & equipment, and right-of-use assets)*

We are required to exercise judgment in determining the grouping of assets to identify their CGUs for the purposes of testing non-financial assets for impairment. In determining the recoverable amount of the CGU, various estimates are employed. Estimates including projected future revenues, margins, costs, and capital investment consistent with strategic plans presented to the Board and key management. Discount rates are consistent with external industry information reflecting the risk associated with the Company and its cash flows.

*Fair value of financial instruments (redeemable Class A and Class C preferred shares)*

The critical assumptions and estimates used in determining the fair value of the preferred shares are: probability of the occurrence of the redemption/retracting; probability and timing of payment of dividends to the holders; the likelihood and timing of the holders exercising their conversion rights; and the discount rate used.

*Share-based payments*

Compensation expense for share-based compensation granted is measured at the fair value at the grant date using the Black-Scholes option pricing model. The critical assumptions used under the option valuation model at the grant date are: stock price valuation; exercise price; risk-free interest rate; expected time to exercise in years; expected dividend yield; and volatility.

**Significant New Accounting Standards Adopted**

The unaudited condensed interim consolidated financial statements for the nine months ended September 30, 2020, were prepared using accounting policies consistent with those used in the audited annual consolidated financial statements for the year ended December 31, 2019, and there is no significant impact on new standards adopted for annual period beginning on or after January 1, 2020.

**Significant New Accounting Standards Not Yet Adopted**

A number of new standards are effective for the annual period beginning on or after January 1, 2021, and earlier application is permitted. We do not expect these standards to have a material impact on the consolidated financial statements and plan to adopt the new standards on the required effective date.

**USE OF PROCEEDS**

The net proceeds to the Company from the Offering will be \$50,575,000, after deducting the Agents' fee of \$3,300,000, the cash portion of the Corporate Finance Fee of \$125,000, and the expenses of the Offering estimated to be \$1,000,000. The Agents' fee and the expenses of the Offering will be paid from the proceeds of the Offering.

The Company intends to use the proceeds as set out below:

<b>Activity or Nature of Expenditure</b>	<b>Estimated Use of Net Proceeds</b>
Expansion of optical lab	
Addition of 2 lens surfacing lines	\$10,000,000
Addition of 2 edging lines	\$2,000,000
Implementation of automation software	\$2,000,000
Warehouse/facility upgrades to facilitate optical expansion	\$1,000,000
Direct response marketing and growth initiatives	
Content creation (i.e. film, social media content, brand assets)	\$4,000,000
Retention (i.e. loyalty incentives and outreach)	\$4,000,000
Influencer marketing (i.e. endorsements, commission programs)	\$4,000,000
Repayment of a portion of outstanding indebtedness <sup>(1)</sup>	\$8,497,500



## Preferred Shares

The Preferred Shares may, at any time and from time to time, be issued in one or more series, each series to consist of such number of shares as may, before the issue thereof, be determined by resolution of the Board. Holders of Preferred Shares shall not be entitled to receive notice of and attend any meetings of our Shareholders or to vote at any such meetings, except meetings at which only holders of Preferred Shares are entitled to vote. Holders of Preferred Shares are entitled to: (a) the right to receive, subject to the prior rights and privileges attaching to any other class of our shares, any dividend declared by us; and (b) the right to receive subject to the prior rights and privileges attaching to any other class of our shares, our remaining property and assets upon dissolution. Subject to the provisions of the *Business Corporations Act* (British Columbia), we may by special resolution fix, from time to time before the issue thereof, the designation, rights, privileges, restrictions and conditions attaching to each series of the Preferred Shares including, without limiting the generality of the foregoing, any voting rights, the rate or amount of dividends or the method of calculating dividends, the dates of payment thereof, the terms and conditions of redemption, purchase and conversion if any, and any sinking fund or other provisions. No special right or restriction attached to any issued shares shall be prejudiced or interfered with unless all shareholders holding shares of each class whose special right or restriction is so prejudiced or interfered with consent thereto in writing, or unless a resolution consenting thereto is passed at a separate class meeting of the holders of the shares of each such class by the majority required to pass a special resolution, or such greater majority as may be specified by the special rights attached to the class of shares of the issued shares of such class.

No Preferred Shares shall be issued and outstanding following completion of the Offering.

## Advance Notice Provisions

We will adopt an "Advance Notice Policy" which will contain certain advance notice provisions with respect to the election of our directors (the "**Advance Notice Provisions**"). The Advance Notice Provisions are intended to: (i) facilitate orderly and efficient annual general meetings or, where the need arises, special meetings; (ii) ensure that all shareholders receive adequate notice of Board nominations and sufficient information with respect to all nominees; and (iii) allow shareholders to register an informed vote. Only persons who are nominated by shareholders in accordance with the Advance Notice Provisions will be eligible for election as directors at any annual meeting of shareholders, or at any special meeting of shareholders if one of the purposes for which the special meeting was called was the election of directors.

Under the Advance Notice Provisions, a shareholder wishing to nominate a director would be required to provide us notice, in the prescribed form, within the prescribed time periods. These time periods include: (i) in the case of an annual meeting of shareholders (including annual and special meetings), not less than 30 days prior to the date of the annual meeting of shareholders; provided, that if the first public announcement of the date of the annual meeting of shareholders (the "**Notice Date**") is less than 50 days before the meeting date, not later than the close of business on the 10th day following the Notice Date; and (ii) in the case of a special meeting (which is not also an annual meeting) of shareholders called for any purpose which includes electing directors, not later than the close of business on the 15th day following the Notice Date, provided that, in either instance, if notice-and-access (as defined in National Instrument 54-101 – Communication with Beneficial Owners of Securities of a Reporting Issuer) is used for delivery of proxy related materials in respect of a meeting described above, and the Notice Date in respect of the meeting is not less than 50 days prior to the date of the applicable meeting, the notice must be received not later than the close of business on the 40th day before the applicable meeting.

## Pre-Closing Capital Changes

In connection with, and immediately prior to the Closing, the following pre-closing capital changes will be implemented:

- The holders of all 10,000 Class A preferred shares outstanding will convert their Class A preferred shares into Common Shares by dividing the original issue price of their Class A preferred shares at \$1,000 per share by the conversion price equal to 80% of the Offering Price;
- The holders of all 7,000 Class B preferred shares outstanding will convert their Class B preferred shares into Common Shares on the basis of 1,971 <sup>3</sup>/<sub>7</sub> Common Shares per each Class B preferred share;
- The holders of all 300 Class C preferred shares outstanding will convert their Class C preferred shares into Common Shares by dividing the original issue price of their Class C preferred shares at \$1,000 per share by the conversion price equal to 80% of the Offering Price; and

- Our share capital will be amended such that it will be comprised of an unlimited number of Common Shares and an unlimited number of Preferred Shares, and eliminating the Class A, B and C preferred share classes.

These amendment and conversion transactions are collectively referred to as the "**Pre-Closing Capital Changes**". See "Principal Shareholders" for the number of securities which will be owned by each of the Principal Shareholders upon Closing.

## DIVIDEND POLICY

We currently intend to retain any future earnings to fund the development and growth of our business and do not currently anticipate paying dividends on the Common Shares. Any determination to pay dividends in the future will be at the discretion of our Board and will depend on many factors, including, among others, restrictions in the BDC Loan Agreement and other credit arrangements we may enter into in the future, our financial condition, current and anticipated cash requirements, contractual restrictions and financing agreement covenants, solvency tests imposed by applicable corporate law and other factors that our Board may deem relevant. Over the last three fiscal years, dividends in the amount of \$nil (in respect of Common Shares), \$nil (in respect of Class A preferred shares), \$nil (in respect of Class B preferred shares) and \$nil (in respect of Class C preferred shares) were declared and paid, and dividends in the amount of \$nil (in respect of Common Shares), \$1,192,000 (in respect of Class A preferred shares), \$835,000 (in respect of Class B preferred shares) and \$36,000 (in respect of Class C preferred shares) were accrued based on the preferred shares agreements and unpaid as of September 30, 2020, which will remain as an amount owed following closing of the Offering.

## PRINCIPAL SHAREHOLDERS

Roger Hardy, Sabrina Liak and Joseph Thompson all collectively referred to herein as the "**Original Kits Shareholders**". LD Group is a company whose shareholders are comprised of The Arshil Abdulla 2013 Family Trust (the "**AA Trust**"), The Fayaz Abdulla 2013 Family Trust (the "**FA Trust**") and The Shaneef Mitha 2013 Family Trust (the "**SM Trust**" and, collectively with the AA Trust and the FA Trust, the "**LD Vision Shareholders**"). The AA Trust is a trust controlled by Arshil Abdulla, a director and senior officer of KITS and founder and former shareholder of KCTI. The FA Trust is a trust controlled by Fayaz Abdulla, a former shareholder of KCTI. The SM Trust is a trust controlled by Shaneef Mitha, a former shareholder of KCTI.

The Original Kits Shareholders and the LD Group are collectively referred to herein as the "**Principal Shareholders**". The security holdings of the Principal Shareholders were acquired in the context of the Acquisition in April 2019. See "Our History".

Upon the completion of the Offering, and assuming the completion of the Pre-Closing Capital Changes, the Principal Shareholders will, collectively, directly or indirectly own or control, 23,942,801 Common Shares, representing approximately 77.2% of the issued and outstanding Common Shares (22,972,213 Common Shares, or approximately 74.1% of the then outstanding Common Shares, if the Over-Allotment Option is exercised in full). As a result, the Principal Shareholders will have a significant influence over us and our affairs. See "Plan of Distribution" and "Risk Factors".

The following table sets out certain information with respect to the Principal Shareholders and the shareholders who, immediately following the Closing, will, to our knowledge, beneficially own, control or direct, directly or indirectly, voting securities carrying 10% or more of the voting rights attached to any class of our voting securities.

Name of Shareholder	Type of Ownership	Immediately following the Pre-Closing Capital Changes and prior to the Closing		Immediately following the Closing	
		Number of Common Shares Owned	Percentage of outstanding Common Shares	Number of Common Shares Owned	Percentage of Outstanding Common Shares
Roger Hardy	Direct and Beneficial	9,126,414 <sup>(1)</sup>	37.2% <sup>(1)</sup>	8,487,723 <sup>(1)(5)</sup>	27.4% <sup>(1)(5)</sup>
Sabrina Liak	Direct and Beneficial	3,940,256 <sup>(2)</sup>	16.1% <sup>(2)</sup>	3,680,762 <sup>(2)(5)</sup>	11.9% <sup>(2)(5)</sup>
Joseph Thompson	Direct	205,542 <sup>(3)</sup>	0.8% <sup>(3)</sup>	191,962 <sup>(3)(5)</sup>	0.6% <sup>(3)(5)</sup>
LD Group	Direct	10,670,589 <sup>(4)</sup>	43.5% <sup>(4)</sup>	10,611,766 <sup>(4)(5)</sup>	34.2% <sup>(4)(5)</sup>

**Notes:**

- (1) Includes Common Shares held directly and indirectly through 0999849 BC Ltd. and Bene Certo Holdings Ltd., companies that are controlled by Mr. Hardy, and Mr. Hardy's spouse and other family members. Does not include 345,000 Options and 9,706 RSRs.
- (2) Includes Common Shares held directly and indirectly through Ms. Liak's spouse. Does not include 345,000 Options and 9,583 RSRs.
- (3) Does not include 920,000 Options and 5,882 RSRs.
- (4) Does not include 345,000 Options and 8,848 RSRs held by Mr. Arshil Abdulla.
- (5) After giving effect to the exercise of the Over-Allotment Option, if exercised in full. See "Plan of Distribution".

**DESCRIPTION OF MATERIAL INDEBTEDNESS**

On March 26, 2019, we entered into the BDC Loan Agreement with BDC which provided us with the BDC Loan. See "The Business of KITS – Our History" for a description of the BDC Loan. As at December 15, 2020, the aggregate principal amount outstanding under the BDC Loan was \$20.4 million.

**CONSOLIDATED CAPITALIZATION**

The following table sets forth our consolidated capitalization as at September 30, 2020: (i) on an actual basis; and (ii) on a pro forma as adjusted basis to give effect to the Pre-Closing Capital Changes and the completion of the Offering. This table is presented and should be read in conjunction with our unaudited condensed interim consolidated financial statements for the three and nine months ended September 30, 2020, and the related notes included elsewhere in this prospectus and with the information set forth under "Selected Pro Forma and Consolidated Financial Information and Other Data", "Management's Discussion and Analysis of Financial Condition and Results of Operations", and "Description of Share Capital – Pre-Closing Capital Changes".

	<b>As at September 30, 2020</b>		
	<u>Actual</u>	<u>After giving effect to Pre-Closing Capital Changes</u>	<u>After giving effect to the Offering</u>
	(in thousands of Canadian dollars)		
<b>Cash and cash equivalents</b> .....	1,826	1,826	43,904
<b>Redeemable Class A &amp; C preferred shares</b> .....	10,674	1,228	1,228
<b>Preferred Class B liability &amp; dividends payable</b> .....	4,335	835	835
<b>Debt</b> .....			
Loan .....	21,002	21,002	12,752
<b>Shareholders' equity</b> .....			
Share capital .....	7,324	23,699	75,274
Contributed surplus .....	634	634	634
Retained earnings (deficit) .....	(314)	(3,743)	(4,990)
Accumulated other comprehensive loss .....	(499)	(499)	(499)
<b>Total shareholders' equity</b> .....	7,145	20,091	70,419
<b>Total capitalization</b> .....	43,156	43,156	85,234

**OPTIONS TO PURCHASE COMMON SHARES**

The following table sets forth the aggregate number of options to purchase Common Shares that will be outstanding upon completion of the Offering:

<b>Category</b>	<b>Number of Options to acquire Common Shares</b>	<b>Exercise Price<sup>(1)</sup></b>	<b>Expiration Date</b>
	<u>Shares</u>	<u>Exercise Price<sup>(1)</sup></u>	<u>Expiration Date</u>
<i>Stock Option Plan (including Legacy Option Plan)</i>			

	<b>Number of Options to acquire Common Shares</b>	<b>Exercise Price<sup>(1)</sup></b>	<b>Expiration Date</b>
All of our executive officers and past executive officers, and all of our directors and past directors, as a group (6 in total)	2,033,200	2.70	Sept. 30, 2026 (1,964,200 options) and July 29, 2027 (69,000 options)
All other of our employees and past employees, as a group (13 in total)	202,861	4.68	July 29, 2027
<b>Totals<sup>(2)</sup></b>	<b>2,236,061</b>	<b>2.88</b>	

Notes:

- (1) Represents the weighted average exercise price of all outstanding options to purchase Common Shares, whether vested or unvested.  
(2) We have granted and, upon completion of the Offering we intend on issuing, RSRs under the LTIP having an aggregate value of \$489,167, of which the grant data fair value price is based on the Offering Price. See "Executive Compensation – Summary Compensation Table".

For a description of our equity-based incentive compensation plans, see "Executive Compensation – Principal Elements of Compensation".

### PRIOR SALES

The following table summarizes issuances of our Common Shares or securities convertible into Common Shares during the 12-month period preceding the date of this prospectus.

<b><u>Date of Issuance</u></b>	<b><u>Type of Security</u></b>	<b><u>Issuance/Exercise Price per Security</u></b>	<b><u>Number of Securities Issued</u></b>
October 1, 2019	Grant of Options	\$2.61	2,040,867
July 30, 2020	Grant of Options	\$5.22	125,734
July 30, 2020	Grant of Options	\$6.52	69,460

### DIRECTORS AND EXECUTIVE OFFICERS

The following table sets forth certain information regarding our directors and executive officers as of the date of this prospectus, with principal occupations over the last five years described below:

<b><u>Name, Position/Title, Province or State and Country of Residence</u></b>	<b><u>Date elected or appointed</u></b>	<b><u>Current number of Common Shares held and percentage of Common Shares<sup>(1)</sup></u></b>	<b><u>Number of Common Shares held and percentage of Common Shares after giving effect to the Pre-Closing Capital Changes and the Offering<sup>(11)</sup></u></b>
Roger Hardy <i>Founder, Chairman and Chief Executive Officer British Columbia, Canada</i>	October 19, 2018	4,615 Class B preferred shares <sup>(6)</sup> 198 Class C preferred shares <sup>(6)</sup> 345,000 Options 9,706 RSRs	9,126,414 Common Shares 345,000 Options 9,706 RSRs
Arshil Abdulla <i>Chief Technology Officer and Director Ontario, Canada</i>	April 5, 2019 <sup>(7)</sup>	4,140,000 Common Shares <sup>(8)</sup> 4,500 Class A preferred shares <sup>(8)</sup> 345,000 Options 8,848 RSRs	4,801,765 Common Shares <sup>(8)</sup> 345,000 Options 8,848 RSRs
Sabrina Liak <i>Founder, Chief Financial Officer, Corporate Secretary and Director British Columbia, Canada</i>	October 19, 2018	1,992 Class B preferred shares <sup>(9)</sup> 85 Class C preferred shares <sup>(9)</sup> 345,000 Options 9,583 RSRs	3,940,256 Common Shares 345,000 Options 9,583 RSRs

<u>Name, Position/Title, Province or State and Country of Residence</u>	<u>Date elected or appointed</u>	<u>Current number of Common Shares held and percentage of Common Shares<sup>(1)</sup></u>	<u>Number of Common Shares held and percentage of Common Shares after giving effect to the Pre-Closing Capital Changes and the Offering<sup>(11)</sup></u>
Joseph Thompson <i>Founder and Chief Operating Officer</i> <i>British Columbia, Canada</i>	October 19, 2018	104 Class B preferred shares 4 Class C preferred shares 920,000 Options 5,882 RSRs	205,542 Common Shares 920,000 Options 5,882 RSRs
Rob Long <i>Chief Marketing Officer</i> <i>Quebec, Canada</i>	January 1, 2020	69,000 Options	69,000 Options
Nick Bozikis <sup>(2),(4),(5)</sup> <i>Director</i> <i>British Columbia, Canada</i>	October 16, 2019	9 Class B preferred shares 9,200 Options	17,050 Common Shares 9,200 Options
Peter Lee <sup>(2),(3),(4),(5)</sup> <i>Director</i> <i>Washington, United States</i>	December 10, 2020	Nil	Nil
Ted Goldthorpe <sup>(3),(4),(5)</sup> <i>Lead Director</i> <i>New York, United States</i>	December 10, 2020	Nil	Nil
Anne Kavanagh <sup>(2),(3),(5)</sup> <i>Director</i> <i>New York, United States</i>	December 10, 2020	Nil	Nil
Fayaz Abdulla <i>Director</i> <i>Ontario, Canada</i>	April 5, 2019 <sup>(7)</sup>	3,220,000 Common Shares <sup>(10)</sup> 3,500 Class A preferred shares <sup>(10)</sup>	3,734,706 Common Shares
<b>TOTALS</b>		80% (Common Shares) 80% (Class A preferred shares) 96% (Class B preferred shares) 96% (Class C preferred shares)	70.4% (Common Shares)

Notes:

- (1) On the basis of 9,200,000 Common Shares, 10,000 Class A preferred shares, 7,000 Class B preferred shares and 300 Class C preferred shares outstanding as of the date of this prospectus. The Class A, B and C preferred shares shall be converted into Common Shares immediately prior to Closing. See "Description of Share Capital – Pre-Closing Capital Changes".
- (2) Member of our Audit Committee.
- (3) Member of our Compensation Committee.
- (4) Member of our Nominating and Corporate Governance Committee.
- (5) Independent director for the purposes of National Instrument 58-101 – *Disclosure of Corporate Governance Practices ("NI 58-101")* of the Canadian Securities Administrators. See "– Corporate Governance – Director Independence".
- (6) Includes 1,353 Class B preferred shares and 58 Class C preferred shares held by 0999849 BC Ltd. and 440 Class B preferred shares and 19 Class C preferred shares held by Bene Certo Holdings Ltd., companies controlled by Mr. Hardy, 380 Class B preferred shares and 16 Class C preferred shares held by Mr. Hardy's spouse, and 51 Class B preferred shares and 2 Class C preferred shares held by members of Mr. Hardy's family.
- (7) Messrs. Arshil Abdulla and Fayaz Abdulla shall resign from the Board immediately prior to Closing.
- (8) Common Shares and Class A preferred shares held through LD Group by the AA Trust. See "Principal Shareholders".
- (9) Includes 1,148 Class B preferred shares and 49 Class C preferred shares held by Ms. Liak's spouse.
- (10) Common Shares and Class A preferred shares held through LD Group by the FA Trust. See "Principal Shareholders".
- (11) Not including the exercise of the Over-Allotment Option. See "Plan of Distribution".

## Biographical Information Regarding the Directors and Executive Officers

### **Roger Hardy, Founder, Chairman and Chief Executive Officer**

Roger Hardy is our Founder and Chief Executive Officer and has served as Chairman of our Board since 2018. As early entrant into e-commerce, Mr. Hardy was previously the CEO and Co-Founder of Coastal which ultimately became listed on the TSX and NASDAQ and was later acquired by Essilor in 2014. Since 2014, Mr. Hardy has been Chairman and CEO of Hardy

Capital Partners ("**Hardy Capital**"), a private investment firm focused on real estate and technology investments. Under his leadership, we have grown rapidly and opened a distribution centre and optical laboratory in Canada with plans to expand these operations into the U.S., in addition to developing and launching our KITS brand of contact lenses and glasses. He is intensely involved in every aspect of our business strategy and operations. In recognition of his unrelenting focus on delivering innovation and impactful outcomes, Mr. Hardy was awarded Ernst & Young Entrepreneur of The Year® for Business to Consumer in 2006 for Coastal and again in 2016 for Shoes.com Technologies Inc., of which he was CEO from 2014 to 2016. Mr. Hardy received a Bachelor of Arts from Bishop's University and currently serves on the board of directors of the Bishop's University Foundation.

***Sabrina Liak, Chief Financial Officer, Corporate Secretary and Director***

Sabrina Liak is our Chief Financial Officer, with responsibility for all finance functions including financial planning & analysis, financial reporting, treasury, internal controls, and tax. Prior to co-founding KITS in 2018, Ms. Liak was a private equity Portfolio Manager at Goldman Sachs Investment Partners ("GSIP") and a Managing Director at GSIP. While at GSIP, Ms. Liak served on the Private Investment Committee of GSIP and on the firm's Physical Commodity Review Committee. She has successfully supported dozens of entrepreneurs and growth businesses through periods of rapid growth, expansion, and scaling through her roles as partner, investor, and board member. Ms. Liak earned a Bachelor of Arts (Honours) in Business Administration from the University of Western Ontario and she is a CFA Charterholder.

***Arshil Abdulla, Chief Technology Officer***

Arshil Abdulla serves as Chief Technology Officer and oversees all aspects of the organization's technology infrastructure, including development of proprietary e-commerce software, Rx verification and fulfillment automations, virtual try-on and online vision test applications, ERP systems, and cloud computing DevOps. Prior to joining KITS, Mr. Abdulla was CEO, CTO, and founder of LD Vision Group, a leading online retailer of contact lenses since 2002 built on a custom tech platform that was unparalleled in the eyecare industry in terms of automation and efficiency. Mr. Abdulla has implemented the critical technologies supporting KITS' growth and operations, most notably, the implementation of purchasing automation software, the launch of our KITS.com site, and the implementation of our glasses management and production system.

***Joseph Thompson, Chief Operating Officer***

Joseph Thompson is our Chief Operating Officer, with responsibility of all operational functions of the business including supply chain, fulfillment, optical lab operations, inventory, product design and development, and customer service. Mr. Thompson is also Operating Partner at Hardy Capital, a position he has held since 2017. Prior to co-founding KITS in 2018, Mr. Thompson was VP of Marketing & Sales at BuildDirect Technologies Inc. Previously Mr. Thompson was General Manager of Retail at Amazon.com where he managed a multi-billion-dollar division. Prior to Amazon, Joseph had a 14-year career at Procter & Gamble with assignments in Cincinnati, Boston, Shanghai, and Toronto. His work at Procter & Gamble and Gillette was awarded 'Best Marketing Program in America' by Ad Week and named to 'America's Hottest Brands' by Ad Age. At Amazon.com, he was named to the 2014 Industry Top Executive List. Mr. Thompson is a graduate of the Harvard Business School and holds a Bachelor of Business Administration from Wilfrid Laurier University School of Business and Economics.

***Rob Long, Chief Marketing Officer***

Rob Long is our Chief Marketing Officer, with oversight of e-commerce, marketing, sales, and customer retention. Mr. Long is a passionate and innovative leader. In this role he brings his deep experience and knowledge of brand, retail, and technology to keep us at the leading edge of innovation in online eyecare and drive growth. Previously, Mr. Long worked with Mr. Hardy at Coastal in 2007 launching the glasses business and taking on several roles including Country Manager for the U.S., Regional Manager for the United Kingdom, and Global Marketing Director. After Coastal's acquisition by Essilor in 2014, Mr. Long was promoted to e-Commerce Director for EyeBuyDirect.com based in Shanghai, China, where he led a full brand transformation. In 2016, Mr. Long was recruited by Dyson to build and lead their Direct to Consumer division in Toronto. Mr. Long holds a Bachelor of Business Administration from Simon Fraser University and a Master's in Business Administration from the Kellogg School of Management at NorthWestern and York's Schulich School of Business.

***Ted Goldthorpe, Lead Director***

Ted Goldthorpe is Lead Director and Chair of the Nominating and Corporate Governance Committee. Mr. Goldthorpe is a financial professional who has been serving as Managing Partner in charge of the Global Credit Business for BC Partners

Lending Corporation since February 2017. He currently serves on the board of directors of Crescent Point Energy Corp., a TSX and NYSE listed energy company. Prior thereto, he was the President of Apollo Investment Corporation, Chief Investment Officer of Apollo Investment Management, and Senior Portfolio Manager, US Opportunistic Credit from April 2012 to August 2016. Previously, Mr. Goldthorpe was employed by Goldman Sachs & Co., where he held a variety of positions upon joining the firm in 1999. Mr. Goldthorpe received a Bachelor of Arts in Commerce from Queen's University and is a frequent guest lecturer at leading universities across North America. Mr. Goldthorpe currently serves on the Global Advisory Board for the Queen's School of Business, is the Chairman of the Young Fellowship of The Duke of Edinburgh's Award and serves on the board of directors for Her Justice and Capitalize for Kids.

***Nick Bozikis, Director***

Nick Bozikis is Chair of the Audit Committee. Mr. Bozikis previously served as the Chief Financial Officer of Coastal until it was acquired by Essilor in 2014 and has since held several other executive finance roles in direct-to-consumer retail businesses, such as Lush Handmade Cosmetics and Shoes.com Technologies Inc. Mr. Bozikis was also Vice President of Finance at AIG Investment Group from 2016 to 2018. Mr. Bozikis currently serves as Chief Financial Officer of Article.com, a fast growing online retailer of home furnishings, based in Vancouver, British Columbia. Mr. Bozikis is a Chartered Professional Accountant (CPA, CA) and earned his designation in 2002.

***Peter Lee, Director***

Peter Lee is a Director. Mr. Lee has over 20 years of experience spanning both small, hyper-growth focused companies to large, global leaders, including serving as Senior Director, Engineering/Data Center Ops, at Oracle Corporation, developing and deploying its Global Single Instance Email and Financials (ERP) and OnDemand disaster recovery business. Mr. Lee was also Director of IT Operations at Netflix, Inc., and CEO of Lensway AB, one of Europe's largest online eyewear companies. He has experience in data center operations and software engineering, having built local and remote engineering teams and implemented agile scrum and architectural review processes to drive efficient delivery. From October 2016 to July 2017, Mr. Lee acted as Interim CIO and Program Manager at Paula's Choice, LLC, where he implemented and migrated the e-commerce platform to the Salesforce commerce cloud system. He has acted as a technical advisor to Glamhive Inc., a personal styling company, since late 2015 advising on business and product strategy, performing technical and contract reviews, and providing digital and marketing support, and to Olive Technologies, Inc., a requirements decision platform, since August 2018. Mr. Lee holds a Bachelor of Science degree in Aeronautical and Astronautical Engineering from Ohio State University.

***Anne Kavanagh, Director***

Anne Kavanagh is Chair of the Compensation Committee. Ms. Kavanagh has over 20 years of Wall Street experience as Head of Healthcare Investment Banking at Paine Webber, Co-Head of Healthcare Investment Banking at Salomon Brothers, President and CEO of NatWest Securities, and Executive Vice President at Drexel Burnham Lambert. Ms. Kavanagh is currently the Managing Member of Kavanagh Consulting LLC, a strategic advisory business, based in New York. Ms. Kavanagh has extensive experience in the retail, consumer, and healthcare sectors. In addition, she was recently on the board of directors of the fast-growing optical brand, Prive Revaux, where she led its board's review of the company's sale to Safilo. Ms. Kavanagh holds a Bachelor's degree from Boston College where she majored in Finance and Marketing.

**Ownership Interest**

Immediately following completion of the Offering after giving effect to the Pre-Closing Capital Changes, our directors and executive officers, as a group, are expected to beneficially own or control, directly or indirectly, 73.9% of our issued and outstanding Shares (71.4% if the Over-Allotment Option is exercised in full).

**Cease Trade Orders, Bankruptcies, Penalties or Sanctions**

None of the Company's directors or executive officers are, as at the date of this prospectus, or have been within ten years before the date of this prospectus, a director, chief executive officer or chief financial officer of any company (including the Company) that:

- was subject to a cease trade order, an order similar to a cease trade order or an order that denied the relevant company access to any exemption under securities legislation, that was issued while the director or executive officer was acting in the capacity as director, chief executive officer or chief financial officer; or

- was subject to a cease trade order, an order similar to a cease trade order or an order that denied the relevant company access to any exemption under securities legislation, that was issued after the director or executive officer ceased to be a director, chief executive officer or chief financial officer and which resulted from an event that occurred while that person was acting in the capacity as director, chief executive officer or chief financial officer.

Other than as described below, none of the Company's directors, executive officers or shareholders holding a sufficient number of the Company's securities to materially affect the control of the Company:

- is, as at the date of this prospectus, or has been within the ten years before the date of this prospectus, a director or executive officer of any company (including the Company) that, while that person was acting in that capacity, or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets;
- has, within the ten years before the date of this prospectus, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of the director, executive officer or shareholder;
- has been subject to any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority; or
- has been subject to any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor in making an investment decision.

Mr. Hardy was CEO and a director and Mr. Bozikis was CFO of Shoes.com Technologies Inc., an online and in-store footwear retailer. Subsequent to their departures, a creditor commenced bankruptcy proceedings against Shoes.com Technologies Inc., its subsidiary and U.S. affiliates in the United States and Canada in February 2017. A receiver was appointed and the assets of the company were sold with the resulting proceeds being distributed to the creditors. The Court subsequently ordered the discharge of the receiver in November 2018.

Mr. Thompson was Chief Marketing Officer of BuildDirect.com Technologies Inc., an online retailer of building materials and finished products. Subsequent to his departure, BuildDirect Technologies Inc. was granted protection from its creditors under the Companies' Creditors Arrangement Act (Canada) (the "CCAA") in October 2017, and in November 2017, an order was granted by the United States Bankruptcy Court recognizing the CCAA proceedings. A CCAA plan of compromise and arrangement was sanctioned by the British Columbia Supreme Court and the United States Bankruptcy Court in March 2018 and subsequently implemented.

## **CORPORATE GOVERNANCE**

We recognize that good corporate governance plays an important role in our overall success and in enhancing shareholder value and, accordingly, we will be adopting upon Closing, certain corporate governance policies and practices. The disclosure set out below describes our approach to corporate governance.

### **Composition of our Board and Board Committees**

Under our Articles, our Board is to consist of a minimum of three and a maximum of seven directors as determined from time to time by the directors. Upon completion of the Offering, our Board will consist of six directors. Under the BCBCA, a director may be removed with or without cause by a resolution passed by an ordinary majority of the votes cast by shareholders present in person or by proxy at a meeting and who are entitled to vote. The directors will be elected by shareholders at each annual meeting of shareholders, and all directors will hold office for a term expiring at the close of the next annual meeting or until their respective successors are elected or appointed. Our Articles provide that, between annual general meetings of shareholders, the directors may appoint one or more additional directors, but the number of additional directors may not at any time exceed one-third of the number of current directors who were elected or appointed other than as additional directors.

The following directors of the Company hold directorships in other reporting issuers or the equivalent in other jurisdictions as set out below:

Name of director	Name of other reporting issuer
Sabrina Liak	Mount Logan Capital Inc., formerly Marret Resource Corp.
Ted Goldthorpe	Crescent Point Energy Corp., Mount Logan Capital Inc., formerly Marret Resource Corp., Portman Ridge Finance Corporation, BC Partners Lending Corporation

The nominees for election by shareholders as directors will be determined by our Nominating and Corporate Governance Committee in accordance with the provisions of applicable corporate law, and the charter of our Nominating and Corporate Governance Committee. See also "– Committees of our Board – Nominating and Corporate Governance Committee".

### Director Independence

Under NI 58-101, a director is considered to be independent if he or she is independent within the meaning of National Instrument 52-110 - Audit Committees ("**NI 52-110**"). Pursuant to NI 52-110, an independent director is a director who is free from any direct or indirect relationship which could, in the view of our Board, be reasonably expected to interfere with a director's independent judgment. Based on information provided by each director concerning his or her background, employment and affiliations, our Board has determined that of the six directors on our Board at Closing, two, being Mr. Hardy and Ms. Liak, will not be considered independent as a result of their positions as executive officers of the Company. Certain members of our Board are also members of the board of directors of other public companies. Our Board has not adopted a director interlock policy, but is keeping informed of other public directorships held by its members.

Our Board has not appointed an independent Chair. Mr. Hardy, the Chairman of the Board, is our Chief Executive Officer and a significant shareholder. Mr. Goldthorpe is the Board's Lead Director and is independent of management. The Board believes that this structure best reflects the entrepreneurial leadership of the Company. The Board is satisfied that the autonomy of the Board and its ability to function independently of management are protected through measures such as the Audit Committee, the Compensation Committee and the Nominating and Corporate Governance Committee being composed of all independent directors. In order to provide leadership for its independent directors, an independent Lead Director has been appointed.

### Meetings of Independent Directors and Conflicts of Interest

Our Board believes that given its size and structure, it is able to facilitate independent judgment in carrying out its responsibilities and will continue to do so following Closing. To enhance such independent judgment, the independent members of our Board may meet in the absence of senior executive officers or any non-independent directors, and the Board encourages its independent members to seek the advice of financial, legal or other consultants when necessary.

A director who has a material interest in a matter before our Board or any committee on which he or she serves is required to disclose such interest as soon as the director becomes aware of it. In situations where a director has a material interest in a matter to be considered by our Board or any committee on which he or she serves, such director may be required to absent himself or herself from the meeting while discussions and voting with respect to the matter are taking place. Directors will also be required to comply with the relevant provisions of the BCBCA regarding conflicts of interest.

### Majority Voting Policy

In accordance with the requirements of the TSX, our Board will adopt a "Majority Voting Policy" to the effect that a nominee for election as a director who does not receive a greater number of votes "for" than votes "withheld" with respect to the election of directors by shareholders shall tender his or her resignation to the Chair promptly following the meeting of shareholders at which the director was elected. Our Nominating and Corporate Governance Committee will consider such offer and make a recommendation to our Board whether to accept it or not. Our Board will promptly accept the resignation unless it determines, in consultation with our Nominating and Corporate Governance Committee, that there are exceptional circumstances that should delay the acceptance of the resignation or justify rejecting it. Our Board will make its decision and announce it in a press release within 90 days following the meeting of shareholders. A director who tenders a resignation pursuant to the Majority Voting Policy will not participate in any meeting of our Board or our Nominating and Corporate Governance Committee at which the resignation is considered.

## **Director Term Limits and Other Mechanisms of Board Renewal**

Our Board has not adopted director term limits or other automatic mechanisms of board renewal. Rather than adopting formal term limits, mandatory age-related retirement policies and other mechanisms of board renewal, the Compensation Committee of our Board will seek to maintain the composition of our Board in a way that provides, in the judgement of our Board, the best mix of skills and experience to provide for our overall stewardship. Our Compensation Committee also is expected to conduct a process for the assessment of our Board, each committee and each director regarding his, her or its effectiveness and performance, and to report evaluation results to our Board. See also "Directors and Executive Officers – Committees of our Board – Compensation Committee - Diversity".

## **Mandate of our Board of Directors**

Our Board is responsible for supervising the management of the business and affairs, including providing guidance and strategic oversight to management. Our Board has adopted a formal mandate in the form set forth in Appendix A herein that includes the following:

- appointing the Chief Executive Officer;
- approving the corporate goals and objectives that the Chief Executive Officer is responsible for meeting and reviewing the performance of the Chief Executive Officer against such corporate goals and objectives;
- taking steps to satisfy itself as to the integrity of the Chief Executive Officer and other senior executive officers and that the Chief Executive Officer and other senior executive officers create a culture of integrity throughout the organization; and
- reviewing and approving management's strategic and business plans.

Our Board has adopted a written position description for the Chair, which sets out the Chair's key responsibilities, including, among others, duties relating to setting Board meeting agendas, chairing Board and shareholder meetings and communicating with shareholders and regulators. Our Board has also adopted a written position description for the Lead Director, which sets out the Lead Director's key responsibilities, including, among others, enhancing Board effectiveness, management the Board, and liaising between the Board and management and with shareholders.

Our Board has adopted a written position description for our Chief Executive Officer which sets out the key responsibilities of our Chief Executive Officer, including, among other duties in relation to providing overall leadership, ensuring the development of a strategic plan and recommending such plan to our Board for consideration, ensuring the development of an annual corporate plan and budget that supports the strategic plan and recommending such plan to our Board for consideration, and supervising day-to-day management and communicating with shareholders and regulators.

## **Orientation and Continuing Education**

It is anticipated that new directors will be provided with comprehensive orientation and education as to the nature and operation of KITS and our business, the role of our Board and its committees, and the contribution that an individual director is expected to make. Our Compensation Committee will be responsible for overseeing director continuing education designed to maintain or enhance the skills and abilities of the directors and to ensure that their knowledge and understanding of our business remains current. The chair of each committee will be responsible for coordinating orientation and continuing director development programs relating to the committee's mandate.

## **Code of Conduct**

We have adopted a written code of conduct (the "**Code of Conduct**") that applies to all of our directors, officers and employees. The objective of the Code of Conduct is to provide guidelines for maintaining our and our subsidiaries integrity, reputation, honesty, objectivity and impartiality. The Code of Conduct will address conflicts of interest, protection of our assets, confidentiality, fair dealing with shareholders, competitors and employees, insider trading, compliance with laws and reporting any illegal or unethical behaviour. As part of the Code of Conduct, any person subject to the Code of Conduct is required to avoid or fully disclose interests or relationships that are harmful or detrimental to our best interests or that may give rise to real, potential or the appearance of conflicts of interest. Our Board will have ultimate responsibility for the stewardship of the Code of Conduct and it will monitor compliance through our Compensation Committee. Directors, officers and employees will be required to annually certify that they have not violated the Code of Conduct. The Code of Conduct will be filed with the Canadian securities regulatory authorities on SEDAR at [www.sedar.com](http://www.sedar.com).

## Committees of our Board

Our Board has established three committees: the Audit Committee, the Compensation Committee and the Nominating and Corporate Governance Committee.

The Company does not intend to adopt written position descriptions for the chair of each committee of the Board. With respect to the chair of each committee of the Board, the Company expects that the chairs will assume a leadership role on each committee, as applicable, and that written descriptions may, in the future, be developed. Each committee has a written charter which helps delineate the roles and responsibilities of each. The Company believes that the roles and responsibilities of each of the chairs and of the chief executive officer are well understood by them and by the Board as a whole.

### Audit Committee

Our Audit Committee consists of three directors, all of whom are determined by our Board to be both independent directors and financially literate within the meaning of NI 52-110. Our Audit Committee is comprised of Mr. Bozikis, who acts as chair of this committee, Mr. Lee and Ms. Kavanagh. Each of our Audit Committee members has an understanding of the accounting principles used to prepare financial statements and varied experience as to the general application of such accounting principles, as well as an understanding of the internal controls and procedures necessary for financial reporting. For additional details regarding the relevant education and experience of each member of our Audit Committee, see also "Biographical Information Regarding the Directors and Executive Officers".

Our Board has adopted a written charter in the form set forth in Appendix B, setting forth the purpose, composition, authority, and responsibility of our Audit Committee, consistent with NI 52-110. The Audit Committee will assist our Board in discharging its oversight of:

- the quality and integrity of our financial statements and related information;
- the independence, qualifications and appointment of our external auditor;
- our disclosure controls and procedures, internal control over financial reporting and management's responsibility for assessing and reporting on the effectiveness of such controls;
- our risk management processes; and
- transactions with our related parties.

Our Audit Committee will have access to all of our books, records, facilities and personnel and may request any information about us as it may deem appropriate. It will also have the authority, in its sole discretion and at our expense, to retain and set the compensation of outside legal, accounting or other advisors as necessary to assist in the performance of its duties and responsibilities. Our Audit Committee will also have direct communication channels with the Chief Financial Officer and our external auditors to discuss and review such issues as our Audit Committee may deem appropriate.

### External Auditor Service Fee

For the years ended December 31, 2019 and 2018, we incurred the following fees by our external auditor:

<i>(in thousands)</i>	<b>Year ended December 31</b>	
	<b>2019</b>	<b>2018</b>
Audit fees <sup>(1)</sup> .....	\$252	\$ -
Audit related fees <sup>(2)</sup> .....	-	-
Tax fees <sup>(3)</sup> .....	-	-
All other fees <sup>(4)</sup> .....	-	-
<b>Total fees</b> .....	<b>\$252</b>	<b>\$ -</b>

#### Notes:

- (1) Fees for audit service on an accrued basis.
- (2) Fees for assurance and related services not included in audit service above.
- (3) Fees for tax compliance, tax advice and tax planning.
- (4) All other fees not included above.

## **Compensation Committee**

Our Compensation Committee is comprised of three directors, all of whom are persons determined by our Board to be independent directors, and is charged with reviewing, overseeing, and evaluating our compensation policies. Our Compensation Committee is comprised of Ms. Kavanagh, who acts as chair of this committee, Mr. Lee and Mr. Goldthorpe. No member of our Compensation Committee will be one of our officers, and as such, our Board believes that our Compensation Committee will be able to conduct its activities in an objective manner.

Each member of the Compensation Committee has relevant experience related to compensation policy and/or oversight that, combined with their independence, suitably equip them to serve on the Compensation Committee. For details regarding the relevant education and experience of each member of our Compensation Committee, including the direct experience that is relevant to each committee member's responsibilities in executive compensation, see also "– Biographical Information Regarding the Directors and Executive Officers".

Our Board has adopted a written charter setting forth the purpose, composition, authority and responsibility of our Compensation Committee. Our Compensation Committee's purpose is to assist our Board in:

- the appointment, performance, evaluation and compensation of our senior executives;
- the recruitment, development and retention of our senior executives;
- maintaining talent management and succession planning systems and processes relating to our senior management;
- developing compensation structure for our senior executives including salaries, annual and long-term incentive plans including plans involving share issuances and other share-based awards;
- establishing policies and procedures designed to identify and mitigate risks associated with our compensation policies and practices;
- assessing the compensation of our directors; and
- developing benefit retirement and savings plans.

For further details on the compensation process, see also "Executive Compensation – Compensation-Setting Process". Our Compensation Committee will also be responsible for orientation and continuing education programs for our directors. See also "– Orientation and Continuing Education".

Historically, our Board has approved the compensation of our Chief Executive Officer, as well as, based on the recommendations of the Chief Executive Officer, the compensation of our other executive officers, including the NEOs (as defined below). In anticipation of becoming a public company, our Board will adopt certain changes to the existing executive compensation regime. All such changes are subject to and conditional upon the successful completion of the Offering. The compensation expected to be paid to NEOs for our first fiscal year as a public company is set forth under "Executive Compensation – Summary Compensation Table".

Further particulars of the process by which compensation for our executive officers is determined is provided under "Executive Compensation".

## **Nominating and Corporate Governance Committee**

Our Nominating and Corporate Governance Committee is comprised of three directors, all of whom are persons determined by our Board to be independent directors, and is charged with reviewing, overseeing and evaluating corporate governance guidelines and Board composition, mandates and effectiveness. Our Nominating and Corporate Governance Committee is comprised of Mr. Goldthorpe, who acts as chair of this committee, Mr. Bozikis and Mr. Lee. No member of our Nominating and Corporate Governance Committee will be one of our officers, and as such, our Board believes that our Nominating and Corporate Governance Committee will be able to conduct its activities in an objective manner.

For additional details regarding the relevant education and experience of each member of our Nominating and Corporate Governance Committee, including the direct experience that is relevant to each committee member's responsibilities in executive compensation, see also "– Biographical Information Regarding the Directors and Executive Officers".

Our Board has adopted a written charter setting forth the purpose, composition, authority and responsibility of our Nominating and Corporate Governance Committee consistent with the Corporate Governance Guidelines. Our Nominating and Corporate Governance Committee's purpose is to assist our Board in:

- developing our corporate governance guidelines and principles and providing us with governance leadership;
- reviewing the structure, composition and mandate of Board committees;
- evaluating the performance and effectiveness of our Board and of our Board committees; and
- identifying individuals qualified to be nominated as members of our Board.

Our Nominating and Corporate Governance Committee will be responsible for establishing and implementing procedures to evaluate the performance and effectiveness of our Board, committees of our Board and the contributions of individual Board members. Our Nominating and Corporate Governance Committee will also take reasonable steps to evaluate and assess, on an annual basis, directors' performance and effectiveness of our Board, committees of our Board, individual Board members, our Chair and committee chairs. The assessment will address, among other things, individual director independence, individual director and overall Board skills, and individual director financial literacy. Our Board will receive and consider the recommendations from our Nominating and Corporate Governance Committee regarding the results of the evaluation of the performance and effectiveness of our Board, committees of our Board, individual Board members, our Chair and committee chairs. The assessment will also involve a review by the Board of its strategies to determine the composition of the Board and the appropriate candidates to be put forth for election as directors at annual general meetings. The review takes into account the desirability of maintaining a balance of skills, experience and background.

### **Diversity**

We believe that having a diverse Board can offer a breadth and depth of perspectives that enhance our Board's performance. We value diversity of abilities, experience, perspective, education, gender, background, race and national origin. Recommendations concerning director nominees are expected to be based on merit and past performance as well as expected contribution to our Board's performance and, accordingly, diversity is taken into consideration. At Closing, two of six members on our Board, or approximately 33 1/3%, will be female members.

We have recruited and selected senior management candidates that represent a diversity of business understanding, personal attributes, abilities and experience. Currently, one of five members of our senior management, or approximately 20%, are female.

We have made inclusion and diversity a selection criterion in our Nominating and Corporate Governance Committee charter for Board nominees. While we do not currently have a specific mandate for the representation and nomination of women on our Board or our senior management, it is a priority for us, and our efforts are reflected in our success in recruiting and retaining qualified female directors and senior management to date. We continue to believe diversity is a priority in both governance and within our organization and we strive to become industry leaders in supporting inclusion and diversity.

We anticipate that the composition of our Board and senior management will be shaped by the selection criteria to be established by our Compensation Committee. This will be achieved by, among other things, ensuring that diversity considerations are taken into account in Board vacancies and senior management, monitoring the level of female representation on our Board and in senior management positions, continuing to broaden recruiting efforts to attract and interview qualified female candidates, and committing to retention and training to ensure that our most talented employees are promoted from within our organization.

### **Directors' and Officers' Liability Insurance**

Our and our subsidiaries' directors and officers will be covered under directors' and officers' liability insurance. Under this insurance coverage, we and our subsidiaries will be reimbursed for insured claims where payments have been made under indemnity provisions on behalf of our and our subsidiaries directors and officers, subject to a deductible for each loss, which will be paid by us. Our and our subsidiaries' individual directors and officers will also be reimbursed for insured claims arising during the performance of their duties for which they are not indemnified by us or our subsidiaries. Excluded from insurance coverage are illegal acts, acts which result in personal profit and certain other acts.

## EXECUTIVE COMPENSATION

### Introduction

The following discussion describes the significant elements of the compensation of our Founder and Chief Executive Officer, Chief Financial Officer, Chief Operating Officer, Chief Technology Officer and Chief Marketing Officer (collectively, the "**named executive officers**" or "**NEOs**"), namely:

- Roger Hardy, Founder, Chairman, and Chief Executive Officer;
- Sabrina Liak, Founder, Chief Financial Officer, Corporate Secretary and Director;
- Arshil Abdulla, Chief Technology Officer;
- Joseph Thompson, Founder and Chief Operating Officer; and
- Rob Long, Chief Marketing Officer.

### Overview

We operate in a dynamic and rapidly evolving market. To succeed in this environment and to achieve our business and financial objectives, we need to attract, retain, and motivate a highly talented team of executive officers. We expect our team to possess and demonstrate strong leadership and management capabilities, as well as foster our culture, which is at the foundation of our success and remains a pivotal part of our everyday operations.

Our executive officer compensation program is designed to achieve the following objectives:

- provide market-competitive compensation opportunities in order to attract and retain talented, high-performing and experienced executive officers, whose knowledge, skills and performance are critical to our success;
- motivate our executive officers to achieve our business and financial objectives;
- align the interests of our executive officers with those of our shareholders by tying a meaningful portion of compensation directly to the long-term value and growth of our business; and
- provide incentives that encourage appropriate levels of risk-taking by our executive officers and provide a strong pay-for-performance relationship.

We offer our executive officers cash compensation in the form of base salary and an annual bonus, and equity-based or equity-like compensation which has historically been awarded in the form of stock options under the Legacy Option Plan, and in the future will be awarded in the form of stock options under our new stock option plan (the "**Stock Option Plan**"). In the future, we may also grant long-term cash incentives consisting of restricted share rights ("**RSRs**") under our long-term incentive plan, which is comprised of a restricted share plan (the "**LTIP**"), to our Board and executive officers. We believe that equity-based compensation awards motivate our executive officers to achieve our business and financial objectives, and also align their interests with the long-term interests of our shareholders. We provide base salary to compensate employees for their day-to-day responsibilities, at levels that we believe are necessary to attract and retain executive officer talent. While we have determined that our current executive officer compensation program is effective at attracting and maintaining executive officer talent, we evaluate our compensation practices on an ongoing basis to ensure that we are providing market-competitive compensation opportunities for our executive team.

As we transition from being a privately-held company to a publicly-traded company, we will continue to evaluate our compensation philosophy and compensation program as circumstances require and plan to continue to review compensation on an annual basis. As part of this review process, we expect to be guided by the philosophy and objectives outlined above, as well as other factors which may become relevant, such as the cost to us if we were required to find a replacement for a key employee. Upon completion of the Offering, we will adopt the Stock Option Plan and the LTIP. See "**Principal Elements of Compensation – Stock Option Plan**" and "**Principal Elements of Compensation – LTIP**".

### Compensation-Setting Process

Our Compensation Committee will be responsible for assisting our Board with overseeing our human resources, succession planning, and compensation policies, processes, and practices. Our Compensation Committee will also be responsible for ensuring that our compensation policies and practices provide an appropriate balance of risk and reward consistent with our risk profile. Following Closing, our Board will adopt a written charter for our Compensation Committee setting out its responsibilities for administering our compensation programs and reviewing and making recommendations

to our Board concerning the level and nature of the compensation payable to our directors and officers. Our Compensation Committee's oversight will include reviewing objectives, evaluating performance, considering risks and implications of those risks in current compensation policies and practices, and ensuring that total compensation paid to our executive officers, personnel who report directly to our CEO and various other key executive officers and managers is fair, reasonable and consistent with the objectives of our philosophy and compensation program. The Compensation Committee's decisions are made in line with its responsibilities and charter. See also "Directors and Executive Officers – Committees of our Board – Compensation Committee".

The compensation expected to be paid to our NEOs for Fiscal 2020, which will be our first year as a public company, is summarized below under the heading "Summary Compensation Table".

Pursuant to the terms of the BDC Loan, remuneration payable by the Company to Mr. Hardy, Ms. Liak, Mr. Thompson, Mr. Arshil Abdulla, Mr. Fayaz Abdulla and Mr. Mitha, excluding options or other share-based compensation, is limited to \$900,000 per annum in the aggregate.

### **Principal Elements of Compensation**

Upon completion of the Offering, the compensation of our executive officers will include three major elements: (i) base salary; (ii) short-term incentives, consisting of an annual bonus; and (iii) long-term equity incentives, consisting of options granted from time to time under the Stock Option Plan and RSRs granted under our LTIP. Perquisites and personal benefits are not a significant element of compensation of our executive officers.

A portion of each eligible director's retainer will be in the form of RSRs. See "Director Compensation".

#### *(i) Base salaries*

Base salary is provided as a fixed source of compensation for our executive officers. Adjustments to base salaries are expected to be determined annually and may be increased based on the executive officer's success in meeting or exceeding individual objectives, as well as to maintain market competitiveness. Additionally, base salaries can be adjusted as warranted throughout the year to reflect promotions or other changes in the scope of breadth of an executive officer's role or responsibilities.

#### *(ii) Annual bonuses*

Annual bonuses are designed to motivate our executive officers to meet our business and financial objectives generally and our annual financial performance targets. Annual bonuses are earned and measured with reference to revenue growth and profitability. Individual bonus payouts will increase or decrease depending on how much revenue and profit for the fiscal year deviates from our targets, taking into account any further adjustments that may be made from time to time for other irregular items, as determined and approved by our Compensation Committee. Annual bonus targets are set as a percentage of the relevant executive officers' base salary, which varies based on his or her position level – up to a maximum of 50% of base salary in the case of executive officers, if maximum financial performance targets are achieved. We have a similar annual bonus plan for key senior managers where the target as a percentage of base salary ranges from 10% to 25% of base salary. We currently make bonus payments in cash and/or options and anticipate continuing to do so upon completion of the Offering.

#### *(iii) Stock Option Plan*

In 2019, we established our stock option plan (the "**Legacy Option Plan**") to advance our interests by enhancing our ability to attract and retain able directors, employees, consultants and advisers, to reward such individuals for their contributions and to encourage such individuals to take into account our long-term interests through the granting of options to acquire Common Shares. Based on the Offering Price, in connection with the Offering, the 2,236,061 options issued and outstanding under the Legacy Option Plan, representing approximately 7.2% of the issued and outstanding Common Shares following Closing will become subject to the terms of our new Stock Option Plan.

Upon completion of the Offering, we will adopt a new Stock Option Plan. The Stock Option Plan will allow for the grant of options to our directors, executive officers, employees, and consultants. Our Board will be responsible for administering the Stock Option Plan, which responsibility may be delegated to a committee of the Board and/or to any member of the Board. The following is a summary of the material attributes and characteristics of the Stock Option Plan.

Our Board, in its sole discretion, shall from time to time designate the directors, executive officers, employees or consultants to whom options shall be granted under the Stock Option Plan.

The maximum number of Common Shares reserved for issuance, in the aggregate, under our Stock Option Plan and all other security-based compensation arrangements will be 10% of the aggregate number of Common Shares issued and outstanding from time to time, and the number of Common Shares reserved for issuance pursuant to options granted to any one individual, within a one year period, shall not exceed 5% of the aggregate number of Common Shares issued and outstanding.

All of the Common Shares covered by exercised, cancelled or terminated options granted under the Stock Option Plan will automatically become available Common Shares for the purposes of options that may be subsequently granted under the Stock Option Plan. As a result, the Stock Option Plan is considered an "evergreen" plan.

All options granted under the Stock Option Plan will have an exercise price determined and approved by our Board at the time of grant, which shall not be less than the market price of the Common Shares at such time. For purposes of the Stock Option Plan, the market price of the Common Shares shall be the closing price for the Common Shares on the TSX on the last trading day before the day on which the option is granted.

An option shall be exercisable during a period established by our Board which shall commence on the date of the grant and shall terminate no later than ten years after the date of the granting of the option. The Stock Option Plan will provide that the exercise period shall automatically be extended if the date on which it is scheduled to terminate shall fall during a blackout period. In such cases, the extended exercise period shall terminate ten business days after the last day of the blackout period. There are currently no limits on insider participation provided for under the Stock Option Plan.

In order to facilitate the payment of the exercise price of the options, the Stock Option Plan has a cashless exercise feature pursuant to which a participant may elect to undertake either a broker assisted "cashless exercise" or a "net exercise" subject to the procedures set out in the Stock Option Plan, including the consent of the Board, where required.

The Stock Option Plan will also provide that appropriate adjustments, if any, will be made by our Board in connection with a stock dividend or split, recapitalization, reorganization or other change of shares, consolidation, distribution, merger or amalgamation or similar corporate transaction, in order to maintain the optionees' economic rights in respect of their options in connection with such change in capitalization, including adjustments to the exercise price and/or the number of Common Shares to which an optionee is entitled upon exercise of options, or permitting the immediate exercise of any outstanding options that are not otherwise exercisable.

A participant's grant agreement or any other written agreement between a participant and us may provide that unvested options be subject to acceleration of vesting and exercisability in certain circumstances, including in the event of certain change of control transactions. Our Board may at its discretion, acting in good faith, accelerate the vesting of any outstanding options notwithstanding the previously established vesting schedule, regardless of any adverse or potentially adverse tax consequences resulting from such acceleration or, subject to applicable regulatory provisions and shareholder approval, extend the expiration date of any option, provided that the period during which an option is exercisable does not exceed ten years from the date such option is granted.

The Board may suspend or terminate the Stock Option Plan at any time, or from time to time amend or revise the terms of Stock Option Plan or of any granted Option, provided that no such suspension, termination, amendment or revision will be made: (i) except in compliance with applicable law and with the prior approval, if required, of the shareholder, the TSX or any other regulatory body having authority over the Company; and (ii) in the case of an amendment or revision, if it would materially adversely affect the rights of any participant, without the consent of the participant, provided however, subject to any applicable rules of the TSX, the Board may from time to time, in its absolute discretion and without the approval of shareholders, make the following amendments to the Stock Option Plan or any outstanding option:

- any amendment to the vesting and assignability provisions;
- any amendment regarding the effect of termination of a participant's employment or engagement;
- any amendment which accelerates the date on which any option may be exercised under the Stock Option Plan;
- any amendment to the definition of an eligible person under the Stock Option Plan;

- any amendment to add provisions permitting for the granting of cash-settled awards, a form of financial assistance or clawback provision and any amendment to a cash-settled award, financial assistance or clawback provision which is adopted;
- any amendment necessary to comply with applicable law or the requirements of the TSX or any other regulatory body;
- any amendment of a "housekeeping" nature, including, without limitation, to clarify the meaning of an existing provision of Stock Option Plan, correct or supplement any provision of the Stock Option Plan that is inconsistent with any other provision of the Stock Option Plan, correct any grammatical or typographical errors or amend the definitions in the Stock Option Plan;
- any amendment regarding the administration of the Stock Option Plan;
- any amendment to add an insider participation limit to the Stock Option Plan; and
- any other amendment that does not require the approval of the holders of Common Shares pursuant to the amendment provisions of the Stock Option Plan.

For greater certainty, our Board shall be required to obtain shareholder approval to make the following amendments:

- any increase in the maximum number of Common Shares that may be issuable pursuant to options granted under the Stock Option Plan, other than for appropriate and proportionate adjustments due to re-organization, merger, re-capitalization, re-classification, stock dividend, subdivision or consolidation;
- any extension of the expiry date of an option, except in case of an extension due to a blackout period;
- any reduction in the exercise price of an option benefitting an insider;
- any amendment to remove or exceed the Insider participation limit; and
- any amendment to the amendment provisions of the Stock Option Plan.

Except as specifically provided in an option agreement approved by our Board, options granted under the Stock Option Plan are generally not transferable other than by will or the laws of descent and distribution.

*(iv) Long-Term Incentive Plan*

Our LTIP provides us with the ability to provide long-term incentives to our Board and executive officers by way of the award of RSRs. Under this plan, RSRs may be granted to employees, officers, directors, management company employees and consultants of the Company as a discretionary payment in consideration of current performance and expected future performance. The purpose of the LTIP is to advance the interests of the Company through the motivation, attraction, and retention of key persons and to secure for the Company and the shareholders the benefits inherent with the retention of such persons. Each RSR entitles the holder to receive one fully paid Common Share without payment of additional consideration upon vesting of the RSR.

The Board shall determine, upon the recommendations of the Compensation Committee, the key employees, officers, directors, management company employees and consultants to whom RSR grants are to be made and the terms and conditions of the RSRs granted. Individual grants shall be determined by an assessment of an individual's current and expected future performance, level of responsibilities and the importance of the position to the Company. Consideration shall also be given to the individual's past impact on or contribution to, and/or the individual's ability in the future to have an impact on or contribute to the long-term performance of the Company.

Pursuant to the terms of the LTIP, the aggregate maximum number of Common Shares reserved for issuance under the LTIP and all other security-based compensation arrangements shall be 10% of the aggregate number of Shares issued and outstanding from time to time, and the number of Common Shares reserved for issuance pursuant to RSRs granted to any one individual, within a one year period, shall not exceed 5% of the aggregate number of Common Shares outstanding from time to time on a fully diluted basis.

Any Common Shares subject to RSRs which have been awarded under the LTIP and which have subsequently vested, or been cancelled or terminated in accordance with the terms of the LTIP without the applicable restricted period(s) having expired will again be available for issuance under the LTIP.

Each RSR entitles the holder to receive one fully paid Common Share without payment of additional consideration on the later of: (i) the end of a restricted period of time wherein a RSR cannot be exercised as determined by the Board (the "**Restricted Period**"); and (ii) a date determined by an eligible participant or Compensation Committee that is after the

Restricted Period and before a participant's retirement date or termination date (a "Deferred Payment Date"). A participant's entitlement to receive the Common Shares may not, however, be deferred by a participant to a date which is later than December 31st of the third calendar year following the date of grant of the RSRs to the participant, or such later date as may be expressly permitted by the Company and applicable income tax laws.

Under the LTIP, the Board may from time to time amend or revise the terms of the LTIP or may discontinue the LTIP at any time. Subject to receipt of requisite shareholder and regulatory approval, the Board may make amendments to the LTIP to: (a) materially increase the benefits under the LTIP; (b) increase the maximum number of Common Shares issuable under the LTIP; and (c) materially modify the requirements as to eligibility for participation in the LTIP. All other amendments to the LTIP may be made by the Board without obtaining shareholder approval, such as an amendment to the Restricted Period of a RSR or an amendment to the termination provisions of an RSR.

Except as otherwise may be expressly provided for under the LTIP, or pursuant to a will or by the laws of descent and distribution, no RSR and no other right or interest of a participant is assignable or transferable.

In the event of a participant's retirement or termination during a Restricted Period, any RSR held by the participant will automatically immediately terminate, unless otherwise determined by the Board. In the event of the retirement or termination of a participant after a Restricted Period and, if applicable, prior to any Deferred Payment Date, the Company will forthwith issue the Restricted Shares (as defined in the LTIP) in accordance with the RSRs held by the participant and any dividends declared but unpaid to the participant. In the event of death or total disability of a participant, the Company will forthwith issue the Restricted Shares in accordance with the RSRs held by the participant. In the event of a Change of Control (as defined in the LTIP), all RSRs held by a participant will be immediately deemed vested notwithstanding any Restricted Period(s) and any applicable Deferred Payment Date(s).

### Summary Compensation Table

The following table sets out information concerning the expected Fiscal 2020 compensation to be earned by, paid to, or awarded to the NEOs:

Name and Principal Position	Year	Salary (\$)	Share Based Awards (\$) <sup>(1)</sup>	Option Based Awards (\$)	Non-Equity Incentive Plan Compensation (\$)		Pension Value (\$)	All Other Compensation (\$)	Total Compensation (\$)
					Annual Incentive Plan	Long-Term Incentive Plan			
Roger Hardy <i>Founder, Chairman, Chief Executive Officer and Director</i>	2020	129,000	82,500 <sup>(2)</sup>	Nil	Nil	Nil	N/A	Nil	211,500
Arshil Abdulla <i>Chief Technology Officer</i>	2020	129,000	75,208 <sup>(3)</sup>	Nil	Nil	Nil	N/A	Nil	204,208
Sabrina Liak <i>Founder, Chief Financial Officer, Corporate Secretary and Director</i>	2020	99,000	81,458 <sup>(4)</sup>	Nil	Nil	Nil	N/A	Nil	180,458
Joseph Thompson <i>Founder and Chief Operating Officer</i>	2020	130,458	50,000 <sup>(5)</sup>	Nil	Nil	Nil	N/A	Nil	180,458
Rob Long <i>Chief Marketing Officer</i>	2020	240,000	Nil	294,400 <sup>(6)</sup>	50,000 <sup>(7)</sup>	Nil	N/A	Nil	584,400

Notes:

- (1) The Offering Price was used to estimate the number of RSRs to be issued.
- (2) Mr. Hardy was granted 3,824 RSRs valued at \$32,500, which vest on December 31, 2020, and 5,882 RSRs valued at \$50,000, of which 1/3 vest on each one year anniversary commencing October 16, 2021. Mr. Hardy does not receive compensation for his role as a director.
- (3) Mr. Abdulla was granted 2,966 RSRs valued at \$25,208, which vest on December 31, 2020, and 5,882 RSRs valued at \$50,000, of which 1/3 vest on each one year anniversary commencing October 16, 2021. Mr. Abdulla does not receive compensation for his role as a director.
- (4) Ms. Liak was granted 3,701 RSRs valued at \$31,500, which vest on December 31, 2020, and 5,882 RSRs valued at \$50,000, of which 1/3 vest on each one year anniversary commencing October 16, 2021. Ms. Liak does not receive compensation for her role as a director.
- (5) Mr. Thompson was granted 5,882 RSRs valued at \$50,000, of which 1/3 vest on each one year anniversary commencing October 16, 2021.
- (6) Based on the estimated value of the Options at issuance using the Black-Scholes option pricing model. Key assumptions used in the Black-Scholes option pricing model are (i) Assumed stock price and exercise price at issuance: \$27.60; (ii) Expected life of options: 7 years; (iii) Volatility: 100%; (iv) Risk free rate: 0.39% and (v) Dividend yield and forfeiture rate: 0%.
- (7) Mr. Long is entitled to an annual cash bonus of \$100,000 in the event that annual growth targets of KCTI are achieved. To-date, we expect only a subset of the targets to be achieved, which would entitle Mr. Long to 50% of such bonus.

## Employment Agreements, Termination and Change of Control Benefits

We have written employment agreements with each of our NEOs and each executive is entitled to receive compensation established by us as well as other benefits in accordance with plans available to the most senior employees.

On March 27, 2019, we entered into an employment agreement with Roger Hardy setting forth the terms and conditions of his employment, which commenced on April 1, 2019. The employment agreement provides for his base salary of \$129,000 per annum and his entitlement to participate in future bonus plans as may be established at the discretion of the Board as well as eligibility for our benefit plans, and includes, among other things, certain restrictive covenants for a period of 18 months following termination. In the case of termination of employment other than for cause, Mr. Hardy will be entitled to continued base salary for 18 months following the date of termination, and participation in the benefit plans until the expiry of certain periods depending on the circumstances. Mr. Hardy's employment agreement was amended effective October 16, 2020, to provide for an increase in annual base salary to \$285,000, payable in cash in the amount of \$129,000 and RSRs valued at \$156,000, subject to availability under the LTIP, failing which the balance shall be payable in cash, if permissible in accordance with the terms of the Company's loan with BDC and acceptance by Board's discretion with a view to the Company's working capital requirements.

On April 5, 2019, we entered into an employment agreement with Arshil Abdulla setting forth the terms and conditions of his employment, which commenced on April 1, 2019. The employment agreement provides for his base salary of \$129,000 per annum and his entitlement to participate in future bonus plans as may be established at the discretion of the Board as well as eligibility for our benefit plans, and includes, among other things, certain restrictive covenants for a period of 18 months following termination. In the case of termination of employment other than for cause, Mr. Abdulla will be entitled to continued base salary for 18 months following the date of termination, and participation in the benefit plans until the expiry of certain periods depending on the circumstances. Mr. Abdulla's employment agreement was amended effective October 16, 2020, to provide for an increase in annual base salary to \$250,000, payable in cash in the amount of \$129,000 and RSRs valued at \$121,000, subject to availability under the LTIP, failing which the balance shall be payable in cash, if permissible in accordance with the terms of the Company's loan with BDC and acceptance by Board's discretion with a view to the Company's working capital requirements.

On March 27, 2019, we entered into an employment agreement with Sabrina Liak setting forth the terms and conditions of her employment, which commenced on April 1, 2019. The employment agreement provides for her base salary of \$99,000 per annum and her entitlement to participate in future bonus plans as may be established at the discretion of the Board as well as eligibility for our benefit plans, and includes, among other things, certain restrictive covenants for a period of 18 months following termination. In the case of termination of employment other than for cause, Ms. Liak will be entitled to continued base salary for 18 months following the date of termination, and participation in the benefit plans until the expiry of certain periods depending on the circumstances. Ms. Liak's employment agreement was amended effective October 16, 2020, to provide for an increase in annual base salary to \$250,000, payable in cash in the amount of \$99,000 and RSRs valued at \$151,000, subject to availability under the LTIP, failing which the balance shall be payable in cash, if permissible in accordance with the terms of the Company's loan with BDC and acceptance by Board's discretion with a view to the Company's working capital requirements.

On April 5, 2019, we entered into an employment agreement with Joseph Thompson setting forth the terms and conditions of his employment, which commenced on April 1, 2019. The employment agreement provides for his base salary of \$99,000 per annum and his entitlement to participate in future bonus plans as may be established at the discretion of the Board as well as eligibility for our benefit plans, and includes, among other things, certain restrictive covenants for a period of 18 months following termination. In the case of termination of employment other than for cause, Mr. Thompson will be entitled to continued base salary for 18 months following the date of termination, and participation in the benefit plans until the expiry of certain periods depending on the circumstances. Mr. Thompson's employment agreement was amended effective October 16, 2020, to provide for a base salary increase to \$250,000 per annum.

On December 30, 2019, KCTI entered into an employment agreement with Rob Long setting forth the terms and conditions of his employment, which commenced on January 1, 2020. The employment agreement provides for his base salary of \$240,000 per annum and an annual bonus of \$100,000 provided that annual growth targets of KCTI are achieved, as well as his entitlement to participate in future bonus plans as may be established at the discretion of the Board as well as eligibility for our benefit plans, and includes, among other things, certain restrictive covenants for a period of 18 months following termination. Mr. Long was also granted options to purchase 69,000 Common Shares of the Company, exercisable

at \$5.22 per Common Share, as of the effective date of his employment, which vest quarterly over a three year period, commencing January 1, 2020, subject to continued employment, and which expire seven years after the grant date or two years after he is no longer employed with KCTI, whichever is earlier. In the case of termination of employment other than for cause, Mr. Long will be entitled to continued base salary for 18 months following the date of termination, and participation in the benefit plans until the expiry of certain periods depending on the circumstances.

The table below summarizes the incremental payments that would be made to our NEOs upon the occurrence of certain events, assuming completion of the Offering, based on the Offering Price:

<u>Name and Principal Position</u>	<u>Event</u>	<u>Severance (\$)</u>	<u>Options/RSRs (\$)</u>	<u>Other Payments (\$)</u>	<u>Total (\$)</u>
Roger Hardy <i>Founder, Chairman, Chief Executive Officer and Director</i>	Termination other than for cause	427,500	Nil	Nil	427,500
Arshil Abdulla <i>Chief Technology Officer</i>	Termination other than for cause	375,000	Nil	Nil	375,000
Sabrina Liak <i>Founder, Chief Financial Officer and Director</i>	Termination other than for cause	375,000	Nil	Nil	375,000
Joseph Thompson <i>Founder and Chief Operating Officer</i>	Termination other than for cause	375,000	Nil	Nil	375,000
Rob Long <i>Chief Marketing Officer</i>	Termination other than for cause	360,000	Nil	Nil	360,000

### Outstanding Option-Based Awards and Share-Based Awards

The following table sets out information concerning the option-based and share-based awards granted to our NEOs that we expect to be outstanding upon completion of the Offering:

<u>Name and Principal Position</u>	<u>Option-Based Awards</u>				<u>Share-Based Awards</u>		
	<u>Number of Common Shares Underlying Unexercised Options<sup>(1)</sup></u>	<u>Option Exercise Price</u>	<u>Option Expiration Date</u>	<u>Value of Unexercised In-the-money Options<sup>(2)</sup></u>	<u>Number of Shares that have not vested<sup>(3)</sup></u>	<u>Market or Payout Value of Share-Based Awards that have not vested<sup>(3)</sup></u>	<u>Market or Payout Value of Share-Based Awards not paid out or distributed</u>
Roger Hardy <i>Founder, Chairman, Chief Executive Officer and Director</i>	345,000	\$2.61	Sept. 30, 2026	\$2,032,050	9,706	\$82,500	N/A
Arshil Abdulla <i>Chief Technology Officer</i>	345,000	\$2.61	Sept. 30, 2026	\$2,032,050	8,848	\$75,208	N/A
Sabrina Liak <i>Founder, Chief Financial Officer and Director</i>	345,000	\$2.61	Sept. 30, 2026	\$2,032,050	9,583	\$81,458	N/A
Joseph Thompson <i>Founder and Chief Operating Officer</i>	920,000	\$2.61	Sept. 30, 2026	\$5,418,800	5,882	\$50,000	N/A
Rob Long <i>Chief Marketing Officer</i>	69,000	\$5.22	July 29, 2027	\$226,320	Nil	Nil	N/A

**Notes:**

- (1) The options reflected in this column were granted under our Legacy Option Plan or will be granted pursuant to the LTIP, and, in connection with the Closing, each such option will become exercisable for one Common Share. For a description of the terms of the options granted under our Stock Option Plan, see "— Principal Elements of Compensation — Stock Option Plan".
- (2) Calculated based on the difference between the market value of the Common Shares, estimated based on the Offering Price under the Offering, and the exercise or base price of the option.
- (3) The number of share based awards that will be granted is equal to the value of the share based awards noted divided by the price of the Common Shares in this Offering, based on the Offering Price.

## Incentive Plan Awards – Value Vested or Earned During the Year

The following table indicates, for each of our NEOs, a summary of the value of the option-based and share-based awards expected to be vested in accordance with their terms during Fiscal 2020 (assuming the continued employment of each NEO):

<u>Name and Principal Position</u>	<u>Option-Based Awards –Value Expected to be Vested During the Year<sup>(1)</sup></u>	<u>Share-Based Awards - Value Expected to be Vested During the Year<sup>(2)</sup></u>
Roger Hardy <i>Founder, Chairman, Chief Executive Officer and Director</i>	\$677,350	\$32,500
Arshil Abdulla <i>Chief Technology Officer</i>	\$677,350	\$25,208
Sabrina Liak <i>Founder, Chief Financial Officer and Corporate Secretary</i>	\$677,350	\$31,458
Joseph Thompson <i>Founder and Chief Operating Officer</i>	\$1,806,267	Nil
Rob Long <i>Chief Marketing Officer</i>	\$75,440	Nil

Notes:

- (1) Calculated based on the difference between the market value of the Common shares, estimated based on the Offering Price under the Offering, and the exercise or base price of the option.
- (2) The value of the share based awards granted was determined by the Board. The number of share based awards that will be granted is equal to the value of the share based awards noted divided by the price of the Common Shares in this Offering, based on the Offering Price.

## DIRECTOR COMPENSATION

### Directors' Compensation

Our directors' compensation program is designed to attract and retain the most qualified individuals to serve on our Board. Our Board, through our Compensation Committee, will be responsible for reviewing and approving any changes to the directors' compensation arrangements. In consideration for serving on our Board, each director that is not an employee will be paid an annual retainer which may, at our Board's discretion, be paid in cash or in some combination of cash and RSRs and will be reimbursed for their reasonable out-of-pocket expenses incurred while serving as directors. See also "Executive Compensation – Principal Elements of Compensation".

The chart below outlines our proposed director compensation program for our non-employee directors:

<u>Type of Fee</u>	<u>Amount</u>
<b>Board Retainer</b> .....	Chair <sup>1</sup> \$60,000/year <sup>2</sup>
	Lead Director <sup>1</sup> \$60,000/year <sup>2</sup>
	Board Member \$50,000/year <sup>3</sup>
<b>Committee Retainer</b> .....	Audit Committee Chair \$5,000/year
	Compensation Committee Chair \$5,000/year
	Corporate Governance Nominating Committee Chair \$5,000/year
	Committee Membership \$2,000/year
<b>Meeting Fees</b> .....	Board Meeting \$1,000/meeting
	Committee Meeting \$800/meeting

Notes:

- (1) Payable for non-executive directors serving in such capacity.
- (2) Comprised of a cash retainer of \$10,000 and RSRs valued at \$50,000.

- (3) Payable in RSRs. The number of share based awards that will be granted is equal to the value of the share based awards noted divided by the price of the common shares in this Offering.

The following table sets out information concerning the expected Fiscal 2020 compensation to be earned by, paid to, or awarded to, the independent directors of the Company:

Name	Expected Fees Earned (\$)	Share Based Awards (\$) <sup>(5)</sup>	Option Based Awards (\$)	Non-Equity Incentive Plan Compensation (\$)		Pension Value (\$)	All Other Compensation (\$)	Total Compensation (\$)
				Annual Incentive Plan	Long-Term Incentive Plan			
Nick Bozikis <sup>(1)</sup>	4,150	4,167	Nil	Nil	Nil	N/A	Nil	8,317
Peter Lee <sup>(2)</sup>	500	4,167	Nil	Nil	Nil	N/A	Nil	4,667
Ted Goldthorpe <sup>(3)</sup>	1,583	4,167	Nil	Nil	Nil	N/A	Nil	5,750
Anne Kavanagh <sup>(4)</sup>	750	4,167	Nil	Nil	Nil	N/A	Nil	4,917

Notes:

- (1) For his service as chair of the Audit Committee and serving on the Nominating and Corporate Governance Committee.
- (2) For serving on the Audit Committee, Compensation Committee and Nominating and Corporate Governance Committee.
- (3) For his service as chair of the Nominating and Corporate Governance Committee and serving on the Compensation Committee.
- (4) For her service as chair of the Compensation Committee and serving on the Audit Committee.
- (5) Non-executive directors are eligible to receive share-based awards payable in RSRs. The RSRs vest in four quarterly installments, the first vesting date occurring three months after the initial grant date. The number of share based awards that will be granted is equal to the value of the share based awards noted divided by the Offering Price under this Offering.

### Outstanding Share-based Awards and Option-Based Awards

The following table sets out information concerning the option-based and share-based awards granted to our non-employee directors that we expect to be outstanding upon completion of the Offering

Name and Principal Position	Option-Based Awards			Share-Based Awards			
	Number of Common Shares Underlying Unexercised Options <sup>(1)</sup>	Option Exercise Price	Option Expiration Date	Value of Unexercised In-the-money Options <sup>(2)</sup>	Number of Shares that have not vested	Market or Payout Value of Share-Based Awards that have not vested	Market or Payout Value of Share-Based Awards not paid out or distributed
Nick Bozikis.....	9,200	\$2.61	Sept. 30, 2026	\$54,188	-	-	-

Notes:

- (1) The options reflected in this column were granted under our Legacy Option Plan or will be granted pursuant to the LTIP, and, in connection with the Closing, each such option will become exercisable for one Common Share. For a description of the terms of the options granted under our Stock Option Plan, see "— Principal Elements of Compensation — Stock Option Plan".
- (2) Calculated based on the difference between the market value of the Common Shares, estimated based on the Offering Price under the Offering, and the exercise or base price of the option.

### INDEBTEDNESS OF DIRECTORS AND OFFICERS

None of our directors, executive officers, employees, former directors, former executive officers or former employees or any of our subsidiaries, and none of their respective associates, is or has within 30 days before the date of this prospectus or at any time since the beginning of the most recently completed financial year been indebted to us or any of our subsidiaries or another entity whose indebtedness is the subject of a guarantee, support agreement, letter of credit or other similar agreement or understanding provided to us or any of our subsidiaries.

## PLAN OF DISTRIBUTION

### General

Pursuant to the Agency Agreement, the Company has appointed the Agents to act as its agents to offer for sale to the public, on a "commercially reasonable best efforts" basis the Common Shares at the Offering Price for aggregate gross proceeds of \$55,000,000, as provided in this Prospectus if, as and when issued by the Company and accepted by the Agents in accordance with the terms of the Agency Agreement, subject to compliance with all necessary legal requirements and to the conditions of the Agency Agreement. In consideration for their services in connection with the Offering, the Company has agreed to pay the Agents a fee equal to 6.0% of the gross proceeds raised by the Offering including the exercise of the Over-Allotment Option, which shall be paid by the Principal Shareholders. It is estimated that the total expenses of the Offering, not including the Agents' fee, will be approximately \$1,000,000. The Company has also agreed to pay to the Lead Agent a Corporate Finance Fee of \$250,000, of which \$125,000 shall be payable in cash and \$125,000 will be payable by the issuance of 14,706 Corporate Finance Fee Shares at the Offering Price. This Prospectus qualifies the distribution of the Corporate Finance Fee Shares. All such expenses of the Offering (other than in respect of the exercise of the Over-Allotment Option) will be paid by us.

**This Offering is not underwritten or guaranteed by any person.** The Agents conditionally offer the Common Shares for sale on a "commercially reasonable efforts" basis without underwriter liability, subject to prior sale, if, as and when issued by the Company, in accordance with the conditions contained in the Agency Agreement and subject to approval of certain legal matters on the Company's behalf by Sangra Moller LLP and on behalf of the Agents by Blake, Cassels & Graydon LLP. The Agents have no obligation to purchase any of the Common Shares and the obligations of the Agents pursuant to the Agency Agreement may be terminated based on the Agent's assessment of the state of the financial markets or if certain events set out in the Agency Agreement occur, including any material adverse change in the business, affairs or financial condition of our Company.

Subscriptions will be received subject to rejection or allotment in whole or in part and the right is reserved to close the subscription books at any time without notice. It is anticipated that the closing of the Offering will occur as soon as possible after obtaining a receipt for a final Prospectus but in any event, not later than 90 days after the date of the receipt for the final Prospectus. The Offering is expected to close on or about January 7, 2021 (the "**Closing Date**") or such other date as the Company and the Lead Agent may agree.

Prior to the Offering, there was no public market for the Common Shares. The Offering Price of \$8.50 per Common Share was determined by negotiation by us and the Lead Agent, on behalf of the Agents, and bears no relationship to earnings, book value or other valuation criteria.

The Agents may form a selling group including other qualified investment dealers and determine the fee payable to the members of such group, which fee will be paid by the Agents out of their fees.

The Principal Shareholders have granted to the Agents the Over-Allotment Option, which is exercisable, in whole or in part, at any time for a period of 30 days after Closing to purchase from the Principal Shareholders up to an additional 970,588 Common Shares (representing 15% of the aggregate number of Common Shares sold in the Offering) on the same terms as set forth above for the purpose of covering the Agents' over-allocation position, if any, and consequent market stabilization. This prospectus also qualifies the grant of the Over-Allotment Option and the sale of the Common Shares upon the exercise of the Over-Allotment Option. A purchaser who acquires Common Shares forming part of the Agents' over-allocation position acquires such Common Shares under this prospectus, regardless of whether the Agents' over-allocation position is ultimately filled through the exercise of the Over-Allotment Option or secondary market purchases. We will not receive proceeds from any sale of Common Shares upon exercise of the Over-Allotment Option, all of which will be paid to the Principal Shareholders. All expenses relating to the exercise of the Over-Allotment Option, including fees payable to the Agents, will be borne by the Principal Shareholders. In the event that the Agents exercise the Over-Allotment Option, up to the first \$8,250,000 will be filled by sales from the security holdings of the Original Kits Shareholders (allocated as follows: 70.05% from Mr. Hardy's holdings; 28.46% from Ms. Liak's holdings; and 1.49% from Mr. Thompson's holdings) and any remaining amount will be filled by sales from the security holdings of the Original Kits Shareholders and the LD Vision Shareholders (allocated as follows: 42.03% from Mr. Hardy's holdings; 17.08% from Ms. Liak's holdings; 0.89% from Mr. Thompson's holdings; and 40% from the holdings of LD Group). Assuming the exercise in full of the Over-Allotment Option, Mr. Hardy will own or control, directly or indirectly, 8,487,723 Common Shares (or 27.4% of the then outstanding Common Shares), Ms. Liak will own or control, directly or indirectly, 3,680,762 Common Shares (or 11.9% of the then outstanding

Common Shares), Mr. Thompson will own or control, directly or indirectly, 191,962 Common Shares (or 0.6% of the then outstanding Common Shares), and LD Group will own or control, directly or indirectly, 10,611,766 Common Shares (or 34.2% of the then outstanding Common Shares). Mr. Arshil Abdulla, by virtue of his ownership interest in LD Group, will have indirect beneficial ownership of 4,775,295 Common Shares (or 15.4% of the then outstanding Common Shares). The foregoing amounts do not include the Common Shares issuable upon exercise of Options or vesting of RSRs held by the Principal Holders. See "Directors and Executive Officers".

The obligations of the Agents under the Agency Agreement are conditional and may be terminated by the Agents in their sole discretion in certain events, including standard industry "market out", "material adverse change out", "disaster out", "regulatory out" and "litigation out" clauses.

Under applicable securities laws in Canada, certain persons and individuals, including us and the Agents, have statutory liability for any misrepresentation in this prospectus, subject to available defences. We have agreed to indemnify the Agents and their directors, officers, employees and agents against certain liabilities, including, without restriction, civil liabilities under securities legislation in Canada, and to contribute to any payments that the Agents may be required to make in respect thereof.

We have applied to list the Common Shares under the symbol "KITS" on the TSX. Listing is subject to the approval of the TSX in accordance of its original listing requirements. The TSX has not conditionally approved the listing application and there is no assurance that it will do so.

There is currently no market through which the Common Shares may be sold. This may affect the pricing of the Common Shares in the secondary market, the transparency and availability of trading prices, the liquidity of the Common Shares and the extent of issuer regulation. See "Risk Factors". Subscriptions for Common Shares will be received subject to rejection or allocation in whole or in part and the right is reserved to close the subscription books at any time without notice. The Closing is expected to occur on January 7, 2021 or such other date as we and the Agents may agree, but in any event not later than [●], 2021. Closing is conditional upon the Common Shares being approved for listing on the TSX.

Pursuant to policy statements of certain securities regulators, the Agents may not, throughout the period of distribution, bid for or purchase Common Shares. The foregoing restriction is subject to certain exceptions including: (a) a bid or purchase permitted under the Universal Market Integrity Rules for Canadian Marketplaces administered by the Investment Industry Regulatory Organization of Canada relating to market stabilization and passive market making activities, (b) a bid or purchase made for and on behalf of a customer where the order was not solicited during the period of the distribution, provided that the bid or purchase was for the purpose of maintaining a fair and orderly market and not engaged in for the purpose of creating actual or apparent active trading in, or raising the price of, such securities, or (c) a bid or purchase to cover a short position entered into prior to the commencement of a prescribed restricted period. Consistent with these requirements, and in connection with this distribution, the Agents may over-allot or effect transactions that stabilize or maintain the market price of Common Shares at levels other than those which otherwise might prevail on the open market. If these activities are commenced, they may be discontinued by the Agents at any time. The Agents may carry out these transactions on any stock exchange on which the Common Shares.

The Offering is being made in each of the provinces and territories of Canada. The Common Shares will be offered in each of the provinces and territories of Canada, through those Agents or their affiliates who are registered to offer the Common Shares for sale in such provinces and such other registered dealers as may be designated by the Agents. Subject to applicable law, the Agents may offer the Common Shares outside of Canada.

The Common Shares have not been and will not be registered under the U.S. Securities Act, or any state securities laws, and accordingly may not be offered, sold or delivered within the United States except in transactions exempt from the registration requirements of the U.S. Securities Act and applicable state securities laws. Except as permitted in the Agency Agreement, and as expressly permitted by applicable laws of the United States, the Agents will not offer, sell or deliver the Common Shares within the United States. The Agency Agreement permits the Agents, by or through their U.S. registered broker-dealer affiliates, to offer and sell the Common Shares in the United States to "accredited investors" within the meaning of Rule 501(a) of Regulation D under the U.S. Securities Act ("**Regulation D**") or "qualified institutional buyers" within the meaning of Rule 144A, provided such offers and sales are made in transactions in accordance with Section 4(a)(2) of the U.S. Securities Act and Rule 506(b) of Regulation D thereunder and similar exemptions under applicable state securities laws. Moreover, the Agency Agreement provides that the Agents will offer and sell the Common Shares outside the United States only in accordance with Rule 903 of Regulation S under the U.S. Securities Act. Common Shares that are

sold in the United States will be restricted securities within the meaning of Rule 144(a)(3) of the U.S. Securities Act and may only be offered, sold or otherwise transferred pursuant to certain exemptions from the registration requirements of the U.S. Securities Act. In addition, until 40 days after the commencement of the Offering, any offer or sale of the Common Shares offered within the United States by any dealer (whether or not participating in the Offering) may violate the registration requirement of the U.S. Securities Act if such offer or sale is made otherwise than in accordance with an exemption from the registration requirement of the U.S. Securities Act.

### **Non-Certificated Inventory System**

No certificates representing the Common Shares to be sold in the Offering will be issued to purchasers under this prospectus. Registration will be made in the depository service of CDS, or to its nominee, and electronically deposited with CDS on the Closing Date. Each purchaser of Common Shares will receive only a customer confirmation of purchase from the participants in the CDS depository service ("**CDS Participants**") from or through which such Common Shares are purchased, in accordance with the practices and procedures of such CDS Participant. Transfers of ownership of Common Shares in Canada will be effected through records maintained by the CDS Participants, which include securities brokers and dealers, banks and trust companies. Indirect access to the CDS book entry system is also available to other institutions that maintain custodial relationships with a CDS Participant, either directly or indirectly. Notwithstanding the foregoing, all Common Shares offered and sold pursuant to Regulation D under the U.S. Securities Act will be represented by definitive physical certificates.

Concurrently with the Offering, Common Shares may be offered and sold in the United States in transactions exempt from the registration requirements of the U.S. Securities Act and applicable state securities laws. This prospectus does not qualify the distribution of Common Shares in the United States. Neither the Company nor the Agents are making an offer to sell or seeking offers to buy such securities in any jurisdiction where the offer or sale is not permitted.

The Common Shares offered hereby have not been and will not be registered under the U.S. Securities Act or any United States state securities laws and, subject to registration under the U.S. Securities Act and applicable United States state securities laws or certain exemptions therefrom, may not be offered, sold, transferred, delivered or otherwise disposed of, directly or indirectly, within the United States or to, or for the account or benefit of, a U.S. Person.

### **Lock-up Arrangements**

Pursuant to the Agency Agreement, each of us and our executive officers and directors have agreed that he, she or it will not, directly or indirectly, without the prior written consent of the Agents, such consent not to be unreasonably withheld, issue, offer or sell or grant any option, warrant or other right to purchase or agree to issue or sell or otherwise lend, transfer, assign or dispose of any of our equity securities, or other securities convertible or exchangeable into or otherwise exercisable into our equity securities or enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of our equity securities, or agree or publicly announce any intention to do any of the foregoing for a period commencing on the date hereof and ending 180 days after the Closing Date, subject to certain limited exceptions, or the issuance of our securities pursuant to or in connection with our equity incentive compensation plans. Holders of 100% of our issued and outstanding shares prior to the completion of the Offering will be subject to these lock-up arrangements.

### **Relationship between Us and Certain of the Agents**

The terms of the Offering, including the Offering Price, were determined by negotiation between us and the Lead Agent, on behalf of the Agents. None of the banks with which any of the Agents are affiliates were involved in the determination of the terms of the Offering. As a consequence of the Offering, each of such Agents will receive its proportionate share of the Agents' fee.

## **CERTAIN CANADIAN FEDERAL INCOME TAX CONSIDERATIONS**

The following, as of the date hereof, is a general summary of the principal Canadian federal income tax considerations under the Tax Act and the regulations thereunder generally applicable to a holder who acquires Common Shares as beneficial owner pursuant to this prospectus and who, at all relevant times, for the purposes of the Tax Act, deals at arm's length with the Company and the Agents, is not affiliated with the Company or the Agents, and will acquire and hold such Common Shares as capital property (each, a "**Holder**"). Common Shares will generally be considered to be capital property to a Holder unless the Holder holds or uses the Common Shares or is deemed to hold or use the Common Shares in the course of carrying

on a business of trading or dealing in securities or has acquired them or is deemed to have acquired them in a transaction or transactions considered to be an adventure in the nature of trade.

This summary does not apply to a Holder: (i) that is a "financial institution" for purposes of the mark-to-market rules contained in the Tax Act; (ii) an interest in which is or would constitute a "tax shelter investment" as defined in the Tax Act; (iii) that is a "specified financial institution" as defined in the Tax Act; (iv) that is a corporation resident in Canada (for the purpose of the Tax Act) or a corporation that does not deal at arm's length (for purposes of the Tax Act) with a corporation resident in Canada, and that is or becomes as part of a transaction or event or series of transactions or events that includes the acquisition of the Common Shares, controlled by a non-resident person, or group of non-resident persons not dealing with each other at arm's length, for the purposes of the foreign affiliate dumping rules in Section 212.3 of the Tax Act; (v) that reports its "Canadian tax results", as defined in the Tax Act, in a currency other than Canadian currency; (vi) that is exempt from tax under the Tax Act; or (vii) that has entered into, or will enter into, a "derivative forward agreement" or a "synthetic disposition arrangement" with respect to the Common Shares, as those terms are defined in the Tax Act. Such Holders should consult their own tax advisors with respect to an investment in Common Shares.

This summary is based upon the current provisions of the Tax Act in force as of the date hereof, specific proposals to amend the Tax Act (the "**Tax Proposals**") which have been announced by or on behalf the Minister of Finance (Canada) prior to the date hereof, the current provisions of the Canada-United States Tax Convention (1980) (the "**Canada-U.S. Tax Convention**"), and counsel's understanding of the current published administrative policies and assessing practices of the Canada Revenue Agency (the "**CRA**"). This summary assumes that the Tax Proposals will be enacted in the form proposed and does not take into account or anticipate any other changes in law, whether by way of judicial, legislative or governmental decision or action, nor does it take into account provincial, territorial or foreign income tax legislation or considerations, which may differ from the Canadian federal income tax considerations discussed herein. No assurances can be given that the Tax Proposals will be enacted as proposed or at all, or that legislative, judicial or administrative changes will not modify or change the statements expressed herein.

**This summary is not exhaustive of all possible Canadian federal income tax considerations applicable to an investment in Common Shares. This summary is of a general nature only and is not intended to be, nor should it be construed to be, legal or tax advice to any particular Holder. Holders should consult their own tax advisors with respect to the tax consequences applicable to them based on their own particular circumstances.**

## **Residents of Canada**

The following portion of this summary is generally applicable to a Holder who, for the purposes of the Tax Act, is resident or deemed to be resident in Canada at all relevant times (each, a "**Resident Holder**"). Certain Resident Holders whose Common Shares might not otherwise qualify as capital property may be entitled to make an irrevocable election pursuant to subsection 39(4) of the Tax Act to have the Common Shares, and every other "Canadian security" (as defined by the Tax Act) owned by such Resident Holder in the taxation year of the election and in all subsequent taxation years, deemed to be capital property. Resident Holders should consult their own tax advisors for advice as to whether an election under subsection 39(4) of the Tax Act is available or advisable in their particular circumstances.

### *Taxation of Dividends*

Dividends received or deemed to be received on the Common Shares will be included in computing a Resident Holder's income. In the case of a Resident Holder who is an individual (including certain trusts), dividends (including deemed dividends) received on the Common Shares will be included in the Resident Holder's income and be subject to the gross-up and dividend tax credit rules applicable to "taxable dividends" received by an individual from "taxable Canadian corporations" (each as defined in the Tax Act). An enhanced gross-up and dividend tax credit will be available to individuals in respect of "eligible dividends" designated by the Company to the Resident Holder in accordance with the provisions of the Tax Act. There may be limitations on the ability of the Company to designate dividends as eligible dividends.

In the case of a Resident Holder that is a corporation, such dividends (including deemed dividends) received on the Common Shares will be included in the Resident Holder's income and will normally be deductible in computing such Resident Holder's taxable income. In certain circumstances, subsection 55(2) of the Tax Act will treat a taxable dividend received (or deemed to be received) by a Resident Holder that is a corporation as proceeds of disposition or a capital gain. Resident Holders that are corporations should consult their own tax advisors having regard to their own circumstances.

A Resident Holder that is a "private corporation" or "subject corporation" (as such terms are defined in the Tax Act) may be liable to pay a refundable tax under Part IV of the Tax Act on dividends received or deemed to be received on the Common Shares to the extent that such dividends are deductible in computing the Resident Holder's taxable income for the year.

### *Dispositions of Common Shares*

A Resident Holder who disposes of, or is deemed to have disposed of, a Common Share (other than a disposition to the Company that is not a sale in the open market in the manner in which shares are normally purchased by any member of the public in the open market) will realize a capital gain (or incur a capital loss) equal to the amount by which the proceeds of disposition in respect of the Common Share exceed (or are exceeded by) the aggregate of the adjusted cost base to the Resident Holder of such Common Share immediately before the disposition or deemed disposition and any reasonable expenses incurred for the purpose of making the disposition. The adjusted cost base to a Resident Holder of a Common Share will be determined by averaging the cost of that Common Share with the adjusted cost base (determined immediately before the acquisition of the Common Share) of all other Common Shares held as capital property at that time by the Resident Holder. The tax treatment of capital gains and capital losses is discussed in greater detail below under the subheading "Capital Gains and Losses".

### *Capital Gains and Losses*

Generally, one-half of any capital gain (a "**Taxable Capital Gain**") realized by a Resident Holder must be included in the Resident Holder's income for the taxation year in which the disposition occurs. Subject to and in accordance with the provisions of the Tax Act, one-half of any capital loss incurred by a Resident Holder (an "**Allowable Capital Loss**") must generally be deducted from Taxable Capital Gains realized by the Resident Holder in the taxation year in which the disposition occurs. Allowable Capital Losses in excess of Taxable Capital Gains for the taxation year of disposition generally may be carried back and deducted in the three preceding taxation years or carried forward and deducted in any subsequent year against Taxable Capital Gains realized in such years, in the circumstances and to the extent provided in the Tax Act.

A capital loss realized on the disposition of a Common Share by a Resident Holder that is a corporation may in certain circumstances be reduced by the amount of dividends which have been previously received or deemed to have been received by the Resident Holder on the Common Share, or a share substituted for such share, to the extent and in the circumstances specified by the Tax Act. Similar rules may apply where a Resident Holder that is a corporation is, directly or indirectly through a trust or partnership, a member of a partnership or a beneficiary of a trust that owns Common Shares. A Resident Holder to which these rules may be relevant is urged to consult its own tax advisor.

A Resident Holder that is throughout the relevant taxation year a "Canadian-controlled private corporation" (as defined in the Tax Act) may be liable to pay an additional refundable tax on its "aggregate investment income" (as defined in the Tax Act) for the year, which is defined to include an amount in respect of Taxable Capital Gains.

### *Minimum Tax*

Capital gains realized and dividends received by a Resident Holder that is an individual or a trust, other than certain specified trusts, may give rise to minimum tax under the Tax Act. Resident Holders should consult their own tax advisors with respect to the application of minimum tax.

### **Non-Residents of Canada**

The following portion of this summary is generally applicable to a Holder who, for purposes of the Tax Act and at all relevant times, is not and is not deemed to be a resident of Canada and does not use or hold, and is not deemed to use or hold, Common Shares in connection with carrying on a business in Canada (each, a "**Non-Resident Holder**"). Special considerations, which are not discussed in this summary, may apply to a Non-Resident Holder that is an insurer carrying on business in Canada and elsewhere or an authorized foreign bank (as defined in the Tax Act). Such Non-Resident Holders should consult their own tax advisors.

### *Taxation of Dividends*

Subject to an applicable tax treaty or convention, dividends paid or credited or deemed to be paid or credited on the Common Shares to a Non-Resident Holder are subject to Canadian withholding tax at the rate of 25% on the gross amount

of the dividend. Under the Canada-U.S. Tax Convention, the rate of withholding tax on dividends paid or credited to a Non-Resident Holder who is resident in the U.S. for purposes of the Canada-U.S. Tax Convention and entitled to benefits under the Canada-U.S. Tax Convention (a "**U.S. Holder**") is generally limited to 15% of the gross amount of the dividend, the rate of withholding tax is further reduced to 5% if the beneficial owner of such dividend is a U.S. Holder that is a company that owns, directly or indirectly, at least 10% of the voting stock of the Company.

#### *Dispositions of Common Shares*

A Non-Resident Holder will not be subject to tax under the Tax Act in respect of any capital gain realized on the disposition or deemed disposition of Common Shares unless, at the time of disposition, the Common Shares constitute "taxable Canadian property" (as defined in the Tax Act) of the Non-Resident Holder, and the Non-Resident Holder is not entitled to relief under an applicable income tax treaty or convention between Canada and the country where the Non-Resident Holder is resident.

Provided the Common Shares are listed on a "designated stock exchange", as defined in the Tax Act (which includes the TSX), at the time of disposition, the Common Shares generally will not constitute taxable Canadian property of a Non-Resident Holder at that time, unless at any time during the 60-month period immediately preceding the disposition, the following two conditions are met concurrently: (i) 25% or more of the issued shares of any class or series of the capital stock of the Company were owned by or belonged to any combination of (a) the Non-Resident Holder, (b) persons with whom the Non-Resident Holder did not deal at arm's length, and (c) partnerships in which the Non-Resident Holder or a person described in (b) holds a membership interest directly or indirectly through one or more partnerships; and (ii) at such time, more than 50% of the fair market value of such shares was derived, directly or indirectly, from any combination of real or immovable property situated in Canada, "Canadian resource property" (as defined in the Tax Act), "timber resource property" (as defined in the Tax Act), or options in respect of, interests in, or for civil law rights in such properties, whether or not such property exists. A Common Share may be deemed to be "taxable Canadian property" in certain other circumstances. Non-Resident Holders should consult their own tax advisors as to whether their Common Shares constitute "taxable Canadian property" in their own particular circumstances.

A Non-Resident Holder's capital gain (or capital loss) in respect of Common Shares that constitute or are deemed to constitute taxable Canadian property (and are not "treaty-protected property" as defined in the Tax Act) will generally be computed in the manner described above under the subheadings "Residents of Canada—Dispositions of Common Shares" and "Residents of Canada – Capital Gains and Losses".

Non-Resident Holders whose Common Shares are taxable Canadian property should consult their own advisors.

### **RISK FACTORS**

In addition to all other information set out in this prospectus, the following specific factors could materially adversely affect us and should be considered when deciding whether to make an investment in KITS and the Common Shares. Other risks and uncertainties that we do not presently consider to be material, or of which we are not presently aware, may become important factors that affect our future financial condition and results of operations. The occurrence of any of the risks discussed below could materially adversely affect our business, prospects, financial condition, results of operations or cash flow. The Common Shares are only suitable for investors (i) who understand the potential risk of capital loss, (ii) for whom an investment in the Common Shares is part of a diversified investment program, and (iii) who fully understand and are willing to assume the risks involved in such an investment program. Prospective purchasers of Common Shares should carefully consider the following risks before investing in us and the Common Shares.

#### **Risks Related to the Company**

***We operate in a highly competitive industry and the size, resources and expertise of some of our competitors may allow them to compete more effectively than we can, which could adversely impact our growth and market share.***

We compete in a market that is highly competitive, and it is our expectation that competition will increase in the future. We compete with a variety of companies, many of which have significantly greater financial, technical, lobbying and marketing resources, with greater brand recognition. These competitors include: (i) online retailers; (ii) drugstores; (iii) mass and general retailers; (iv) independent optometrists; and (v) optical chains. Many of these competitors have a longer operating history, have greater financial resources, have established marketing relationships with leading suppliers and have secured a greater presence in certain distribution channels, including online. Some of these companies operating in

traditional distribution channels may also commence or expand their presence online and we cannot predict how successful such companies may be online. In addition, our online competitors can duplicate many of the services and content offered on our websites. If our competitors seek to gain or retain market share by reducing prices, we would likely be forced to reduce our prices on similar product offerings in order to remain competitive. There can be no assurance that we will be able to effectively compete with present or future competitors and be able to increase or maintain market share. Such competition could, among other things, result in disruptions to our supply chain and have a material adverse effect on our business and financial condition.

We also compete directly and indirectly with optometrists for the sale of prescription contact lenses and glasses and other eyecare products and services. Optometrists hold a competitive advantage over us because many customers may find it more convenient or preferable to purchase these products directly from their optometrists at the time of an office visit. We also compete directly and indirectly with both online and traditional eyecare retailers. Both online and traditional eyecare retailers may hold a competitive advantage over us because of longer operating histories, established brand names, greater resources, and/or an established customer base. In addition, we face growing competition from online and multichannel eyecare providers, as customers now routinely use computers, tablets, smartphones, and other mobile devices and mobile applications to shop online and compare prices and products in real time. In order to effectively compete in the future, we may be required to offer promotions and other incentives, which may result in lower operating margins and in turn adversely affect our results of operations. We also face a significant challenge from our competitors holding significant market power or forming alliances with each other. These larger competitors or groups of competitors may negotiate better pricing and better terms from suppliers by aggregating the demand for products and negotiating volume discounts, which could be a competitive disadvantage to us.

Additionally, we operate in a regulated industry and the failure of competitors to comply with rules and regulations applicable to this industry may place us in a competitive disadvantage. For example, the *Fairness to Contact Lens Consumers Act* (the "FCLCA") establishes a national uniform standard in the United States with regard to releasing and verifying contact lens prescriptions. The FCLCA requires all eyecare practitioners ("ECPs") to give patients a copy of their prescription after they have been fitted for contact lenses, whether patients request it or not. It also requires all ECPs to respond to direct marketers' requests to verify consumer prescriptions and provides that their failure to respond within eight business hours shall result in the prescription being presumed valid. We believe that since the enactment of the FCLCA, many orders have been cancelled unnecessarily by ECPs who prefer to record sales of contact lenses at their own store. ECPs may, among other things, solicit our customers during the verification delay period, respond that prescriptions are expired or invalid but then sell contact lenses without further examination or refuse to release prescriptions automatically to all contact lens wearers. If ECPs fail to comply with the FCLCA, and if the new rules are not vigorously enforced, the new prescription verification requirements could have a material adverse effect on our revenue. Furthermore, we are unable to monitor and ensure that our competitors follow the requirements of the FCLCA, or, if they do follow the requirements of the FCLCA, that they follow them to the same extent that we do. Failure to follow the provisions of the FCLCA will give our competitors an advantage over us to the extent that such non-compliance is undetected by reducing the compliance costs associated with the FCLCA of these competitors.

We expect that our competition will view us as disruptive to the industry and will attempt to hinder our business and decrease consumer choice in numerous ways, including by challenging our practices, swaying public opinion, attempting to change or re-interpret rules and regulations, and taking legal actions. These competitors' action(s) may have a material adverse effect on our business and financial condition or subject us to regulatory or legal actions, penalties, fines or restrictions.

***Our new product introductions may not be as successful as we anticipate.***

As part of our ongoing business strategy, we expect we will continue to introduce innovative new products in our product categories. The consumer acceptance of new product launches and sales may not be as high as we anticipate, whether as a result of lack of acceptance of the products themselves or their price, the strength of our competitors or limited effectiveness of our marketing strategies. Any introduction of new products may result in operational and financial constraints which could inhibit our ability to successfully accomplish such introduction, and may also result in difficulties in manufacturing or packaging leading to lower than expected margins. In addition, our ability to launch new products may be limited by delays or difficulties affecting the ability of our suppliers or manufacturers to timely manufacture, distribute and

ship new products or displays for new products, as well as changes in regulatory requirements. Any of these occurrences could have a material adverse effect on our business, financial condition and results of operations.

***Significant failures of product quality on the part of our suppliers could affect our reputation and impact our revenues from existing customers and our ability to grow our customer base.***

We are reliant on our suppliers to control the quality of both contact lenses and eyeglasses components with respect to both third party brands and our KITS brand. Our reputation for delivering product of high quality to our customers quickly and efficiently is dependent on their ability to control product quality and identify defects. Significant failures of product quality on the part of our suppliers could adversely affect our reputation and impact our revenues from existing customers and our ability to grow our customer base.

We purchase our contact lens and eyeglass components both from manufacturers and a wide variety of suppliers and we could be supplied with products that are defective, counterfeit reproductions, that do not meet applicable quality standards and regulatory requirements, or that potentially violate U.S. or Canadian federal or state/provincial laws or applicable laws in other jurisdictions. Sale of such defective or counterfeit products may expose us to legal claims and we cannot be certain that our insurance coverage would be adequate for any such liabilities actually incurred or that insurance would continue to be available to us on economically reasonable terms, or at all.

In addition, while we have internal measures in place to verify the authenticity of products sold on our websites and minimize potential infringement of third-party intellectual property rights in the course of sourcing and selling products, these internal measures may not always be effective. In the event that counterfeit products or products that infringe upon third-party intellectual property rights are sold on our website, we could face claims that we should be held liable for selling counterfeit products or infringing on such third-party intellectual property rights. Such claims, whether or not meritorious, may result in the expenditure of significant financial and managerial resources, injunctions against us or the payment of damages. We may need to obtain licenses from third parties who allege that we have infringed their rights, but such licenses may not be available on terms acceptable to us or at all.

We have also occasionally received, and may in the future continue to receive, shipments of merchandise that fail to comply with our specifications or that fail to conform to our quality control standards. We have also received, and may in the future continue to receive, merchandise that either meets our specifications but that is nonetheless unacceptable to us, or products that are unacceptable to certain of our customers or to other members of the public. Under these circumstances, unless we are able to obtain replacement products in a timely manner, we risk the loss of revenue resulting from the inability to sell such merchandise and related increased administrative and shipping costs. Additionally, if the unacceptability of our merchandise is not discovered until after it is purchased or viewed by our customers or members of the public, our customers or members of the public could form unfavourable opinions of our merchandise, we could face a merchandise recall, our results of operations could suffer and our reputation and brand could be harmed. For example, if frames or contact lenses contain a manufacturing defect or issue that is not discovered until after the customer has used the product.

***The success of the Company is dependent on its ability to forecast and adapt to changes in consumer trends, consumer demands and consumer preferences.***

Our success is dependent on our ability to anticipate and forecast changes in trends and consumer preferences and continuously manage and develop our collection of brands to respond to these consumer trends. We design and develop new brands and incorporate select third party brands in an effort to meet our customers' demands.

There can be no assurance that we will be able to continue to successfully carry out our demand driven merchandise planning, buying and inventory strategies and maintain stock of the appropriate assortment of products. To the extent our predictions differ from our customers' purchasing preferences, we may be faced with excess raw materials or inventories for some products and/or shortages or missed opportunities for others. Low inventory levels can adversely affect our ability to meet customer demand, which may lead to lost revenue and diminished brand loyalty. Any sustained failure to anticipate, identify and respond to emerging trends in consumer preferences could have a material adverse effect on our business, financial condition, and results of operations.

***We may not be able to obtain sufficient quantities of contact lenses and eyeglasses at competitive prices or at all in the future to meet existing or anticipated demand.***

Product cost is our largest expense. In the past, certain major contact lens manufacturers have refused to sell their products to direct marketers and have sought to prohibit others from doing so. We have purchased in the past and we may continue to purchase a portion of our products from distributors that may be subject to re-sale restrictions from manufacturers. All contact lenses are manufactured by third parties. We may not be able to obtain sufficient quantities of contact lenses at competitive prices in the future to meet existing or anticipated demand, and any such inability could have a material adverse effect on our business, financial condition and results of operations.

The branded eyeglass frames market is also dominated by a handful of manufacturers that license various brands. Similar to contact lens manufacturers, certain of these eyeglass frame suppliers and their distributors have previously refused to sell their products to direct marketers, including us, and have sought to prohibit others from doing so. Some eyeglass frame suppliers have their own direct-to-consumer channels which may compete with us. We have purchased in the past and may continue to purchase many products from distributors, some of which may be subject to resale restrictions from manufacturers which are intended to try to limit their ability to sell to online retailers, including us. Currently, all our eyeglass frames are manufactured by third parties. We may not be able to obtain sufficient quantities of eyeglass frames at competitive prices in the future to meet existing or anticipated demand, and any such inability could have a material adverse effect on our business, financial condition and results of operations.

We rely on a small number of key suppliers who supply us with contact lens and/or components required in our assembly of glasses, including hinges, acetate, and lenses. In the event that one or more of these suppliers can no longer supply us, we may not be able to secure other adequate sources of supply at all or on favourable terms. Such occurrences could adversely affect our business by increasing costs or, in the event adequate replacement supply cannot be secured, reducing revenue.

***We cannot control all of the various factors that might affect our timely and cost-effective procurement of products from our vendors and delivery of products to our customers.***

We are dependent on a limited number of key supply partners. If we are unable to expeditiously and cost-effectively obtain shipments of products from our vendors and deliver merchandise to our customers, our business and results of operations may be harmed. We cannot control all of the various factors that might affect our timely and cost-effective procurement of products from our vendors and delivery of products to our customers. We also rely on a number of third party carriers for shipments of products to and from our fulfillment facilities and to customers. We are therefore subject to the risks, including increased fuel costs, security concerns, labour disputes, union organizing activity, and inclement weather, associated with our carriers' ability to provide product fulfillment and delivery services to meet our distribution and shipping needs. Failure to procure and deliver merchandise, either to us or to our customers in a timely and accurate manner, will harm our reputation, our business, and our results of operations. In addition, any increase in fulfillment costs and expenses could adversely affect our business and operating results. Our operating results could also be materially adversely affected if the governments of the various countries in which we sell our products implement or enforce stricter importation controls.

If we are unable to maintain our relationships with our existing outsourcing partners or cannot identify or enter into relationships with new outsourcing partners to meet the manufacturing and assembly needs of our private brand business, our private brand business may be disrupted and our business, financial condition, and results of operations may be materially and adversely affected. In addition, political and economic instability, the financial stability of our suppliers and outsourcing partners, their ability to meet our standards, labor problems, the availability and prices of raw materials, merchandise quality issues, currency exchange rates, transport availability and cost, transport security, inflation, natural disasters and epidemics, among other factors, are beyond our control and may materially and adversely affect our suppliers and outsourcing partners and, in turn, our business, financial condition, and results of operations.

***We are dependent on our fulfillment and optical lab centres. If one or more of our fulfillment or optical lab centres becomes inoperable, capacity is exceeded or if operations are disrupted, our business, financial condition and operating results could be negatively affected.***

We conduct our fulfillment operations and glasses manufacturing from our fulfillment and optical lab centres in the Greater Vancouver Area, British Columbia, Canada, as well as third party fulfillment and optical lab centres in Canada and in the United States that are necessary to support order fulfillment. Any significant disruption of these centres' operations will

adversely affect our ability to make timely delivery of our products. A natural disaster or other catastrophic event, such as an earthquake, fire, flood, severe storm, break-in, server failure, power failure or systems failure, terrorist attack, or other comparable event at these facilities could cause significant interruptions or delays in our business and loss of inventory and could render us unable to process or fulfill customer orders in a timely manner, or at all. Further, our insurance may not adequately compensate us for losses that may occur. In the event that a significant part of any of these facilities was destroyed or our operations were interrupted for any extended period of time, our business, financial condition, and operating results would be harmed.

In order to enhance our distribution footprint, we may require additional fulfillment and optical lab facilities to lower shipping costs, increase delivery speed, and diversify our geographic footprint. We may not be successful in identifying and procuring suitable future fulfillment and optical lab locations, making us dependent on our limited existing network. If the Company is unable to secure the appropriate licenses, permits or otherwise, the expectations of management with respect to the increased future processing capacity may not be borne out, which could have a material adverse effect on the Company's business, financial condition and results of operations. Further, construction delays or cost over-runs in respect of the build-out/development of a facility, howsoever caused, could have a material adverse effect on the Company's business, financial condition and results of operations.

If we are unable to optimize management of our fulfillment and optical centres, we may be unable to meet customer expectations. Because it is difficult to predict sales volume, we may be unable to manage our facilities in an optimal way, which may result in excess or insufficient inventory, warehousing, fulfillment or glasses manufacturing capacity. Any failure to effectively control product damage and shrinkage through effective security measures and inventory management practices could adversely impact our operating margins. In addition, if we need to increase our fulfillment capacity more quickly than anticipated, that expansion would require additional financing that may not be available to us on favourable terms when required, or at all.

***In the event of a partial or total loss of our customer database, we would experience disruptions in our ability to market our products, which may decrease sales.***

We view maintaining and expanding our relationships with existing customers as key to our growth and ultimate profitability. Although our customer database is regularly replicated, and these back-ups are stored off-site, the customer database is still potentially at risk from fire, flood, earthquake, computer systems failure, corruption, theft and cybersecurity breach. In the event of partial or total loss of our customer database, we would experience disruptions in our ability to market our products to existing customers and to remind customers to re-order lenses, which may decrease sales. Any theft or misappropriation of our customer information could also subject us to liability and reputational harm. Additional costs may also be incurred in restoring our database, also decreasing our profitability.

***Our business depends on a strong brand image, and if we are not able to protect and enhance our brands, our business may be negatively impacted.***

We believe that our brand image and brand awareness has contributed significantly to the success of our business and that maintaining and enhancing our brand image and increasing brand awareness in new markets where we have limited brand recognition is important to maintaining and expanding our customer base. Maintaining and enhancing our brand image and increasing brand awareness will require us to make investments in areas such as merchandising, employee training, public relations, and marketing, as well as other costs associated with expanding our e-commerce business. These investments may be substantial and may not ultimately be successful. Furthermore, as our marketing efforts and our brand awareness continue to increase, the risks relating to the misappropriation of our brands and trademarks also increase. Should a competitor or other entity be successful in misappropriating our brands or trademarks, this could have a material adverse effect on our business, financial condition and results of operations.

Our brand image and reputation may be impacted by, among other things, actions taken by our employees, characteristics of our products (including characteristics that may result in recalls), marketing activities and negative commentary or reviews as well as many of the other risks described in this section. Widespread use and access to social media campaigns and viral messaging or imagery could significantly broaden the scope and impact of any such events or circumstances. Because consumers value readily available information about retailers and their products, they may act on information conveyed through social media without further investigation and without regard to its accuracy. The harm to

our brand may be immediate without affording us an opportunity for redress or correction, and there can be no assurances that we will respond in an appropriate or timely manner.

***Our business and reputation may be negatively impacted by actions taken by our suppliers, manufacturers and employees.***

The actions and business practices of our partners, suppliers and manufacturers may negatively impact our business. We source the materials for our products predominantly in, and our independent partners, suppliers and manufacturers operate predominantly in, the U.S., Asia, and Europe, and we do not directly supervise or control them. Any failure by us or by our suppliers or manufacturers, to maintain customer services levels, products quality and integrity, acceptable labour practices or ethical and socially responsible operations or operate in accordance with applicable laws, could adversely affect our brand image, reputation, customer trust, financial performance and operating results or subject us to regulatory or legal actions, penalties, fines or restrictions.

If our reputation is negatively affected by the actions of our employees, by our inability to conduct our operations in a manner that is appealing to current or prospective customers, or otherwise, our business, financial condition, and results of operations may be materially and adversely affected. In addition, if we are unable to maintain our current levels of customer service and our reputation for customer service as we grow or otherwise, our revenue may not continue to grow or may decline, and our business, financial condition, and results of operations may be materially and adversely affected.

***Any failure to offer high-quality customer service and support may adversely affect our relationships with our existing and prospective customers, and in turn our business, results of operations and financial condition.***

When purchasing our products and/or services, our customers depend on our customer service and support, including prescription verification activities which are provided by third party partners based internationally. If we or our partners are unable to maintain a consistently high level of customer service, we may lose existing customers. In addition, our ability to attract new customers is highly dependent on our reputation and on positive recommendations from our existing customers. Any failure to maintain a consistently high level of customer service, or a market perception that we do not maintain high-quality customer service, could adversely affect our reputation and the number of positive customer referrals that we receive.

***We are dependent on key personnel the loss of which would have an adverse impact on our business.***

Our management team consists of a core group of senior executive officers. The loss of the technical and operational knowledge, management expertise and strategic guidance of one or more members of our team could result in a diversion of management resources, as the remaining members of management would need to cover the duties of any senior executive who leaves us and would need to spend time usually reserved for managing our business to search for, hire and train new members of management.

The loss of some or all of our management team or other key personnel, could negatively affect our ability to develop and pursue our growth strategy, which could adversely affect our business and financial condition. Any departures of key personnel could also be viewed in a negative light by investors and analysts, which could cause the price of our Common Shares to decline.

In addition, the market for key personnel in our industry is highly competitive, and we may not be able to attract and retain key personnel with the skills and expertise necessary to manage our business and pursue our growth strategy.

***We rely heavily on third parties for mail and courier delivery service, marketing and advertising, customer service, prescription verification, technology solutions and payment processing.***

We rely heavily on third parties for mail and courier delivery service, marketing and advertising, customer service, prescription verification, and payment processing, as well as third party technology partners in for the licensing of certain components of our online eyecare platform, such as virtual try-on and online vision testing. As part of providing these services, we exchange information about our customers for the purposes of facilitating customer orders. Our third party service providers and licensors operate in both domestic and foreign jurisdictions and could breach our agreements, have their data integrity compromised, operate under different and/or conflicting regulatory regimes, or have cultural differences in practices and communication. These factors could lead to failures in or complete loss of our data, technology, processes,

protocols or otherwise negatively impact our ability to comply with laws and regulations or our operations. Also, the rates charged for services by our third party providers could increase and we may not be able to effectively pass such increases on to our customers. Any of these events could have a material adverse effect on our financial performance and operating results or subject us to regulatory or legal actions, penalties, fines or restrictions. In addition, strikes or other service interruptions by service providers could adversely affect our ability to market, deliver and collect on our revenue on a timely basis.

***The sale and distribution of contact lenses and other optical products is subject to various laws and regulations***

The sale and distribution of contact lenses and other optical products is subject to various laws and regulations. We sell to consumers in various states, provinces, and countries, and our sales are therefore subject to the laws of such various jurisdictions. Such laws regulate relationships between optical retailers and eyecare practitioners and, in many cases, interpret the corporate practice of medicine/optometry rules broadly to prohibit employment of eyecare practitioners by corporations like us and to prohibit various financial arrangements, such as fee-splitting, between eyecare practitioners and other entities.

The laws and regulations governing the distribution and sale of contact lenses vary from jurisdiction to jurisdiction but are generally classifiable into the following categories: (i) laws that require contact lenses and/or optical products to be sold only with a verified prescription; (ii) laws that require contact lenses and/or optical products to be sold only with patient validation of their prescription; (iii) laws that require contact lenses and/or optical products to be sold only in transactions that occur with an ECP in personal attendance or operating in a supervisory role; (iv) laws that require those selling contact lenses and/or optical products to be licensed as ECPs; (v) laws that do not specifically address contact lenses and/or optical products or that are ambiguous; and (vi) laws which we believe place no restrictions on the distribution and sale of replacement contact lenses and/or optical products. The online nature of our sales potentially exposes us to broader applicability of regulations, as well as additional regulations, such as the verification and other requirements under the FCLCA and rules relating to registration of Internet sellers. The laws and regulations potentially applicable to us are, as such, numerous and, in many cases, burdensome and subject to evolving interpretations. As such, we may fail to comply at times with laws and regulations potentially applicable to us, which could result in actions taken to circumscribe our business operations or other adverse consequences. For example, if one of our shipments or those of our suppliers are found not to comply with applicable regulations or requirements, there could be delays in our ability to deliver our products to our customers, or regulatory or legal actions, penalties, fines, or restrictions could be imposed on either us or our suppliers, any of which could adversely affect our reputation, financial condition, and results of operations.

The nature of our business requires that we import contact lenses and eyeglasses into various jurisdictions, including, but not limited to, the United States and Canada. These countries also have legislation and regulations which govern the importing of contact lenses and eyeglasses, including regulations regarding packaging, labeling, testing, quality, and import documentation requirements. If one of our shipments or those of our suppliers are found not to comply with applicable import regulations or requirements, there could be delays in our ability to deliver our products to our customers, or regulatory or legal actions, penalties, fines, or restrictions could be imposed on either us or our suppliers, any of which could adversely affect our reputation, financial condition, and results of operations.

If there is a change in applicable import regulations or requirements, and if we or one of our suppliers fail to comply with such new regulations or requirements, restrictions could be imposed on either us or our suppliers in connection with the importing of products, which would have a material adverse effect on our business, financial condition and results of operations. Our business, financial condition, and results of operations could also be materially adversely affected by lobbying action by licensing and regulatory bodies who wish to restrict the sale of our products.

Given the extensive regulation that governs our business, any changes in this regulatory regime could have a material adverse effect on our business, financial condition and results of operations. There can be no assurance that we will be able to anticipate regulatory changes or respond in a timely manner to all such changes or that such responses will satisfy new requirements.

***We are subject to health-related legislation in a number of jurisdictions and there may be legal challenges to our ability to conduct our business in the future.***

In 2016, the College of Optometrists of Ontario and the College of Opticians of Ontario (the "**Colleges**") commenced an application against Essilor for breach of Ontario's Regulated Health Professions Act ("**RHPA**") because Essilor's websites were used to fulfill and ship orders of prescription eyewear to patients in Ontario. Essilor processed patients' orders and prepared the finished glasses and contact lenses in Vancouver, British Columbia. For orders from Ontario, the only steps of the transactions that physically took place in Ontario were the placing of the order, and the delivery of the eyewear. The Ontario Court of Appeal held in favour of Essilor and found that the RHPA was not applicable to Essilor's online sales to Ontario patients because with the exception of delivery, which was primarily commercial in nature, all other acts performed to fulfill the online orders were completed in compliance with the British Columbia regulatory regime. The Court ruled that a finding in favour of the Colleges would have amounted to using Ontario's health professions regulatory legislation to grant Ontario optometrists and opticians a monopoly over the commercial importation of prescription eyewear into Ontario, which was not explicitly set out in legislation. Leave for appeal to the Supreme Court of Canada was dismissed. Although this represents an important development in Canadian law applicable to our business, there is no assurance that additional claims in different jurisdictions on similar grounds will not be filed in the future.

***Any failure to comply with U.S. and Canadian regulatory requirements applicable to medical device operations could have an adverse effect on our business.***

Contact lenses and eyeglasses are regulated as medical devices in the United States by the Federal Food and Drug Administration ("**FDA**") and in Canada by Health Canada. Under the United States Food, Drug, and Cosmetic Act (the "**FDC Act**"), medical devices must meet a number of regulatory requirements and are subject to "general controls" which include: registration with the FDA; listing commercially distributed products with the FDA; complying with good manufacturing practices under the quality system regulations; filing reports with the FDA and keeping records of certain types of adverse events associate with devices under the medical device reporting regulations; assuring that device labeling complies with FDA requirements; reporting certain device field removals and corrections to the FDA; and obtaining pre-market notification 510(k) clearance for devices prior to marketing. The Food and Drugs Act (the "**FD Act**") in Canada has similar requirements. We cannot provide assurance that such third-party manufacturers' contact lenses or eyeglasses that we sell comply with these regulatory requirements. We also engage in certain manufacturing, repackaging and relabeling activities that subject us to direct oversight by the FDA under the FDC Act and its implementing regulations, as discussed below.

The distribution of medical devices that do not comply with the FDC Act or the FD Act is unlawful and subjects the distributor and the devices themselves to regulatory action. Such regulatory action may include legal action by the U.S. Department of Justice (on behalf of the FDA) and/or various forms of FDA enforcement and compliance actions. These legal, enforcement and compliance actions include, but are not limited to the issuance of warning letters, untitled letters, recalls, fines, penalties, injunctions, seizures, prosecutions, adverse publicity (such as FDA press releases), or other adverse actions.

The FDA and United States Customs and Border Protection may inspect shipments of our products for compliance with applicable regulatory requirements. Should these inspections indicate even the mere appearance of non-compliance with applicable medical device controls or requirements, it could expose us to additional import/export-related enforcement and compliance actions, which could result in the destruction or detention of the non-compliant products and significant delays in delivery of products to our customers. The FDA can place products or a manufacturer or supplier on the FDA's automatic detention list if the products are found to regularly be non-compliant. Products of companies on the automatic detention list are automatically detained without inspection, examination or sampling, which can significantly slow delivery of products into the United States. While our products have not in the past been on the automatic detention list, we have had in the past, and may have in the future, certain shipments of our products detained by the FDA for inspection. If such detentions occur with regularity or greater frequency, or if we are placed on the automatic detentions list, such events could have a material adverse affect on customer satisfaction and loyalty and our reputation for quick and reliable delivery, as well as adversely affect our business, results of operations and financial condition.

Similar sanctions may be enacted by government regulatory authorities in other markets where we conduct business.

***The method by which we sell contact lenses may be considered misbranded under the FDA.***

The FDA also regulates the labeling of medical devices. The contact lenses that we sell are prescription devices, and therefore contain the following statement required by FDA regulations: "Caution: Federal law restricts this device to sale by or on the order of a (physician or other licensed practitioner)". However, because of the difficulty we have encountered in obtaining prompt responses from ECPs, especially during this unprecedented public health emergency when many traditional ECPs are not operating in the normal course due to COVID-19 related closures or disruptions, we sometimes sell lenses based solely on the ECP's passive verification of the prescription information provided by the customer or on the prescription information provided by the customer, without a written prescription or other order by the customer's ECP. The FDA could consider contact lenses that are sold in such a fashion to be misbranded, which may result in warning letters, seizure, injunctions, civil penalties or prosecution. Such sanctions, including opportunistic allegations and claims by competitors, could have a material adverse effect on our business, financial condition and results of operations.

***Our online vision test may be regulated as a Class II medical device and, as a result, we may be required to obtain a 510(k) clearance.***

In the United States, Section 510(k) of the FDC Act requires device manufacturers to notify the FDA of their intent to market a medical device at least 90 days in advance. This is known as Premarket Notification - also called PMN or 510(k). This allows the FDA to determine whether the device is equivalent to a device already placed into one of the three classification categories (Classes I, II or III).

Our online vision test may be regulated as a Class II medical device and as a result, we may be required to obtain a 510(k) clearance. In 2019, the FDA issued a Class II device recall on online refractive vision tests produced by our competitor due to a lack of 510(k) clearance. The FDA stated the cause for the recall was the Company's failure to submit a marketing application.

In April 2020, the FDA published the "Enforcement Policy for Remote Ophthalmic Assessment and Monitoring Devices during the Coronavirus Disease 2019 Public Health Emergency" (the "**Enforcement Policy**"), which provides guidance regarding the use of remote ophthalmic assessment and measuring devices to reduce the need for in-person treatment during the COVID-19 public health emergency. To facilitate the use of such devices for eyecare outside of traditional settings, the Enforcement Policy makes clear that FDA will not object to certain alterations such as:

- allowing devices previously cleared for use in health care facilities to change their indications such that they can be used in home settings;
- modifying previously non-portable (though FDA-approved) ophthalmic devices for portable or handheld use; or
- allowing virtual reality or mobile technology to be used to modify such devices to allow for remote assessment and monitoring capability.

Our online vision test currently is offered in compliance with the Enforcement Policy. However, the FDA has stated that the Enforcement Policy is intended to remain in effect only for the duration of the COVID-19 public health emergency and may be rescinded once the emergency is over. If the Enforcement Policy ceases to apply, we may be required to obtain 510(k) clearance, resulting in full FDA review in respect of the application of our online vision test and there is no assurance that the outcome of such review will be successful. Accordingly, there is a risk that we will be unable to provide this feature in the future. Even if ultimately successful, such review could otherwise result in disruption in the ability to provide this feature. Further, as a result of the rate at which COVID-19 is expanding current laws and regulations and their interpretations may change. This could have an adverse effect on our business.

Our online vision test is currently available in certain states in the United States but may, in the future, be expanded into Canada. The sale and advertising of medical devices are regulated in Canada by Health Canada under the Medical Devices Regulations of the Food and Drugs Act (Canada). If we make our online vision test available in Canada, it may be regulated as a Class II medical device and as a result, we may need regulatory approval from Health Canada. There is no assurance that such approval will be provided. Further, although we do not consider our online vision testing platform to be a substitute for a comprehensive eye exam, optometrists may object to any expansion of our online vision test into Canada which may result in disruption in our ability to provide this feature in Canada.

***Rapid growth and development of the market for online commerce may prompt calls for more stringent consumer protection laws that may impose additional burdens on companies.***

Laws and regulations directly applicable to communications or commerce over the Internet are becoming more prevalent. Rapid growth and development of the market for online commerce may prompt calls for more stringent consumer protection laws that may impose additional burdens on companies conducting business online and, in particular, companies that fill prescriptions for disposable contact lenses and optical products. Adoption or modification of laws or regulations relating to online business could have a material adverse effect on our business, financial condition and results of operations.

We rely on a variety of marketing techniques, including email and social media marketing and postal mailings, and we are subject to various laws and regulations that govern such marketing and advertising practices. A variety of federal, state and provincial laws and regulations govern the collection, use, retention, sharing and security of consumer data, particularly in the context of online advertising, which we rely upon to attract new customers.

Laws and regulations relating to privacy, data protection, marketing and advertising, and consumer protection are evolving and subject to potentially differing interpretations. These requirements may be interpreted and applied in a manner that is inconsistent from one jurisdiction to another or may conflict with other rules or our practices. As a result, our practices may not have complied or may not comply in the future with all such laws, regulations, requirements and obligations. Any failure, or perceived failure, by us to comply with our posted privacy policies or with any federal, state or provincial privacy or consumer protection-related laws, regulations, industry self-regulatory principles, industry standards or codes of conduct, regulatory guidance, orders to which we may be subject or other legal obligations relating to privacy or consumer protection could adversely affect our reputation, brand and business, and may result in claims, proceedings or actions against us by governmental entities, customers, suppliers or others or other liabilities. Any such claims, proceedings or actions could damage our reputation, brand and business, force us to incur significant expenses in defense of such proceedings or actions, distract our management, increase our costs of doing business, result in a loss of customers and suppliers and result in the imposition of monetary penalties.

In addition, the collection, use and disclosure of client personal and health information are subject to substantial regulation by federal, state and provincial governments. These laws provide that: an individual's consent is required prior to the collection, use and disclosure of information collected from them (with limited prescribed exceptions); that the collected information be protected with reasonable security measures; and that the individual have access to the information so collected in order to ensure its accuracy. In addition, future legislation may affect the dissemination of health information that is not individually identifiable. If a client's privacy is violated, or if we are found to have violated any law or regulation, we could be liable for damages or for criminal fines or penalties.

Federal and state governmental authorities continue to evaluate the privacy implications inherent in the use of third-party "cookies" and other methods of online tracking for behavioral advertising and other purposes. Certain governmental bodies have enacted, or are considering legislation or regulations that could significantly restrict the ability of companies and individuals to engage in these activities, such as by regulating the level of consumer notice and consent required before a company can employ cookies or other electronic tracking tools or the use of data gathered with such tools. Additionally, some providers of consumer devices and web browsers have implemented, or announced plans to implement, means to make it easier for Internet users to prevent the placement of cookies or to block other tracking technologies, which could if widely adopted result in the use of third-party cookies and other methods of online tracking becoming significantly less effective. The regulation of the use of these cookies and other current online tracking and advertising practices or a loss in our ability to make effective use of services that employ such technologies could increase our costs of operations and limit our ability to acquire new customers on cost-effective terms and consequently, materially and adversely affect our business, financial condition, and results of operations.

The Federal Trade Commission and many state attorneys general are interpreting federal and state consumer protection laws to impose standards for the online collection, use, dissemination and security of data. Each of these privacy, security, and data protection laws and regulations, and any other such changes or new laws or regulations, could impose significant limitations, require changes to our business, or restrict our use or storage of personal information, which may increase our compliance expenses and make our business more costly or less efficient to conduct. In addition, any such

changes could compromise our ability to develop an adequate marketing strategy and pursue our growth strategy effectively, which, in turn, could adversely affect our business, financial condition, and results of operations.

***We may not be able to adequately protect our intellectual property, which could harm the value of our brand and adversely affect our business.***

Our ability to implement our business plan successfully depends in part on our ability to further build brand recognition using our trademarks, service marks and other proprietary intellectual property, including our name and logos. While it is our policy to protect and defend vigorously our rights to our intellectual property, we cannot predict whether steps taken by us to protect our intellectual property rights will be adequate to prevent infringement or misappropriation of these rights. It may be difficult for us to prevent others from copying elements of our products and any litigation to enforce our rights could be costly, divert attention of management, and may not be successful. Although we believe that we have sufficient rights to all of our trademarks, service marks and other intellectual property rights, we may face claims of infringement that could interfere with our ability to market and promote our brands. Any such litigation may be costly and divert resources from our business. Moreover, if we are unable to successfully defend against such claims, we may be prevented from using our trademarks, service marks or other intellectual property rights in the future and may be liable for damages, which in turn could materially adversely affect our business, financial condition or results of operations.

In addition, we hold various domain names, including, KITS.com, OptiContacts.com and ContactsExpress.ca, which are critical to the operation of our business. We cannot practically acquire rights to all domain names similar to ours or to those of our brands, whether under existing top level domains or those which may be issued in the future. If third parties acquire rights to use similar domain names, our brands may be damaged and we may lose sales. In addition, we have customary contractual rights to the use of our domain names, but if we were to lose our rights, the loss could have material adverse effect on our business and results of operations.

***Third parties may claim infringement of their intellectual property rights.***

Other parties may claim that we infringe their proprietary rights. We may be subject to claims and legal proceedings regarding alleged infringement by us of the intellectual property rights of third parties. Any such claim, whether or not meritorious, may result in the expenditure of significant financial and managerial resources, injunctions against us or the payment of damages. We may need to obtain licenses from third parties who allege that we have infringed their rights, but such licenses may not be available on terms acceptable to us or at all. In addition, we may not be able to obtain or utilize on terms that are favorable to us, or at all, licenses or other rights with respect to intellectual property we do not own in providing e-commerce services to other businesses and individuals under commercial agreements.

***Our business depends on the safe and continued operation of sophisticated equipment in order to assemble eyeglasses for our customers.***

We assemble custom made eyeglasses on our premises using sophisticated and automated equipment. Our business depends on the safe and continued operation of this equipment in order to assemble these eyeglasses for our customers. Increases in the demand for our eyeglasses would result in a need for additional equipment to sustain the rate of assembly required to ship product to customers in an acceptable time frame. In the event that such equipment is unavailable or breaks down, and we are unable to secure trained operators of this equipment, our business, financial condition and operating results would be harmed.

***Excess inventory could lead to inventory obsolescence and associated costs, but insufficient inventory could harm our customer relationships and profits.***

We must maintain sufficient inventory levels to operate our business successfully and meet our customers' expectations that we will have the products they order in stock. However, we must also guard against the risk of accumulating excess inventory. We are exposed to inventory risks as a result of rapid changes in product cycles, changed in consumer tastes, changes in wholesale pricing and foreign exchange rates, impairments of the general consumer economic environment, contact lens expiration dates leading to obsolete/unsaleable inventory, uncertainty of success of product launches, manufacturer backorders and other vendor-related problems. In order to be successful, we must accurately

predict these trends and events, which we may be unable to do successfully, and avoid over-stocking or under-stocking products. Since introducing eyeglasses, changes in customer preferences have become a more important risk factor to us relating to inventory. Excess inventory could lead to inventory obsolescence and associate costs, but insufficient inventory could harm our customer relationships and profits and require us to make split shipments for backordered items or pay for expedited delivery from the manufacturer.

***Our future operational success could depend on our ability to negotiate contracts with managed vision care companies, vision insurance providers and other third-party payors.***

An increasing percentage of our customers receive vision insurance coverage through managed care payors. These payors represent an increasingly significant portion of our overall revenues and our revenue growth. While we may have relationships with vision care insurers in North America, currently, a relatively small number of payors comprise the majority of our managed care revenues, subjecting us to concentration risk. Our future operational success could depend on our ability to negotiate contracts with managed vision care companies, vision insurance providers and other third-party payors, several of whom have significant market share. As our managed care business continues to expand, we have incurred and expect to incur additional costs related to this area of our business. In addition, as our managed care business continues to grow closer to overall industry penetration levels, we expect our associated revenue growth rate to slow over time. We may be unable to establish or maintain satisfactory relationships with managed care and other third-party payors. In addition, many managed care payors have existing provider structures in place that they may be unable or unwilling to change. Some vertically-integrated payors also have their own networks, and these payors may take actions to maintain or protect these networks in ways that negatively affect us, including by increasing costs or not allowing our new or existing stores to participate in their networks. Increasing consolidation in the optical industry may give such payors greater market power which may adversely affect our ability to negotiate reimbursement rates under managed care arrangements. Our inability to enter into arrangements with managed care payors in the future or to maintain existing relationships with managed care payors on commercially reasonable terms could have a material adverse effect on our business, financial condition and results of operations. In addition, delays in receiving or the failure to receive reimbursements under our managed care arrangements, significant changes to the economics of a managed care contract or relationship or the loss of a significant managed care contract or relationship could have a significant negative impact on our business, financial condition and results of operations.

***The failure of our computer systems to operate effectively and keep pace with our growing capacity requirements could adversely affect our business.***

We rely extensively on our computer systems to track inventory and customer data, manage our supply chain, record and process transactions, collect and summarize data and manage our business. While our systems are designed to operate without interruption, we may in the future experience interruptions to the availability of our computer systems from time to time. The failure of our computer systems to operate effectively, keep pace with our growing capacity requirements, smoothly transition to upgraded or replacement systems or integrate with new systems could adversely affect our business. In addition, our computer systems are subject to damage or interruption from power outages, computer and telecommunications failures, computer viruses, cyber-attacks, denial-of-service attacks, security breaches, catastrophic events such as fires, floods, earthquakes, tornadoes, hurricanes, acts of war or terrorism, and usage errors or malfeasance by our employees. If our computer systems are damaged or cease to function properly, we may have to make a significant investment to fix or replace them, and we may suffer loss of critical data, compromise to the integrity or confidentiality of customer and employee information in our systems or networks, disruption to the systems or networks of third parties on which we rely, and interruptions or delays in our operations. A lack of relevant and reliable information that enables management to effectively manage our business could preclude us from optimizing our overall performance. Any significant loss of data or failure to maintain reliable data could have a material adverse effect on our business and results of operations. A disruption to our e-commerce business could reduce our e-commerce revenue, increase our costs, diminish our growth prospects, expose us to litigation, decrease customer confidence and damage our brand.

Our success depends, in part, on the ability to provide prompt, accurate and complete service to customers on a competitive basis, and the ability to purchase and promote products, manage inventory, ship products, manage sales and marketing activities and maintain efficient operations through telephone and proprietary management information systems. A significant disruption in telephone, Internet, or management information systems could damage our reputation and harm relations with customers and the ability to manage our operations. From time to time, we have experienced

temporary interruptions in telephone and Internet service as a result of technical problems experienced by our long-distance carriers and Internet providers. Similar interruptions may occur in the future and such interruptions may harm our business. Furthermore, extended or repeated reliance on our back-up computer systems may harm our business by increasing costs associated with the operation of our call centres.

***We have a limited operating history and our growth and operating results may fluctuate significantly.***

We have a limited operating history and we may experience significant fluctuations in our operating results and rate of growth. Our evolving business model and the unpredictability of demand in our industry make it difficult for us to accurately forecast the level or source of our revenues, certain of our costs, and our rate of growth. We believe that, because of these factors, historical trends and quarter-to-quarter comparisons of our operating results are not necessarily meaningful and should not be relied upon as an indicator of our future performance. In the past, our operating results have sometimes been, and it is likely that in some future quarter or quarters they will be, below the expectations of investors and securities analysts. In that event, the price of the Common Shares may fall substantially and investors may lose all or part of their investment.

Our revenue growth and profitability depend on the continued growth of demand for the products we offer. Demand for many of our products and, therefore, our business, is affected by changes in consumer preferences, general economic and business conditions, and world events. A softening of demand, for whatever reason, may result in decreased revenue or growth. Revenue growth may not be sustainable, and our company-wide and by-segment percentage growth rates are likely to fluctuate and may decrease in the future.

We operate in the eyeglasses business and while our preliminary results in this business appear promising, we may not be able to continue growing at the same rate or build a successful and sustainable business in this market. Our success is dependent on a limited number of suppliers, our assembly and distribution processes, as well as new marketing processes. There is no assurance that we will be able to acquire new customers in a cost-effective manner, and there is no assurance that existing customers will return to make additional purchases. We may invest in capital equipment, technology, and processes that are not ultimately suitable for the business and we may not be able to recruit the specialized employees required to achieve our production capacity goals in this business. It is possible that we could experience inconsistencies in terms of quality, access to inventory and delivery times from our suppliers. We expect to face more experienced or established competition, as prescription glasses sales represent much greater proportion of some of our competitors' revenues and profits than do contact lenses. This competition may be in the form of increased advertising, lower retail pricing, legal challenges, regulatory challenges and lobbying, supplier lock-ups, and other unforeseen strategies.

Our revenues and operating results have varied significantly in the past and may vary significantly from quarter-to-quarter due to a number of factors, including:

- our ability to retain customers, cause existing customers to return and make additional purchases, increase sales to existing customers, increase average order values in respect of existing customers, attract new customers and satisfy our customers' demands;
- the frequency and size of customer orders and the quantity and mix of products our customers purchase;
- changes in consumer acceptance and usage of the Internet, online services and e-commerce in this industry;
- changes in fashion and customer preferences as it relates to our eyeglasses selection;
- the prices we charge for our products and for shipping those products, or changes in our pricing policies or the pricing policies of our competitors;
- the extent to which we offer free shipping or other promotional discounts to customers;
- the extent to which the current economic conditions restrict spending on our products;
- our ability to procure inventory at reasonable prices, if at all, manage inventory and fulfill orders;
- technical difficulties, system downtime or interruptions;
- our actual or expected return on marketing spending;
- timing and costs of upgrades and developments in our systems and infrastructure;
- timing and costs of marketing and other investments;
- disruptions in service by shipping carriers;
- our ability to estimate customer debt default rates;
- the introduction by our competitors of websites, products or services;

- changes in tax rates, regulations, estimates, assessments or rulings;
- the extent of marketing or other reimbursements available from third parties;
- an increase in the price of fuel, which is used in the transportation of packages, or an increase in the prices of other energy products, primarily natural gas and electricity, which are used by our operating facilities and our suppliers' operating facilities;
- the effects of strategic alliances, potential acquisitions and other business combinations, and our ability to successfully and timely integrate them into our business;
- changes in government regulation or the effects of certain licensing and regulatory bodies' lobbying or legal action surrounding the sale of contact lenses and eyeglasses or the use of online vision tests;
- actual or expected foreign exchange rates;
- current economic conditions and world events; and
- changes in usage rates of contact lenses and reduction in eyecare expenditures as a result of COVID-19, including higher unemployment and reduced wages resulting therefrom.

In addition, our operating expenses are largely based on anticipated revenue trends, and a high percentage of our expenses are fixed in the short-term and in the long-term we plan to build a substantial fulfillment and optical lab operation which will be depreciated. As a result, a delay in generating or recognizing revenue for any reason could result in substantially adverse operating results.

Our market is subject to rapid changes in technology and the business environment. We may adjust our strategies in response to these changes by changing, divesting, or discontinuing organically developed or acquired systems, operations or businesses that may no longer be consistent with the business environment or our strategies. Such changes could have a material impact on our operating results.

***Our recent growth rates may not be sustainable or indicative of our future growth***

We have experienced significant growth in recent periods. Revenue increased from \$54.93 million for the nine months ended September 30, 2019, to \$24.22 million for the nine months ended September 30, 2020 (or \$37.27 million in respect of the Unaudited Pro Forma Combined Nine Months ended September 30, 2019), in part as a result of the Acquisition. This rate of growth may not be sustainable or indicative of our future rate of growth. We believe that our continued growth in revenue will depend upon, among other factors, our ability to:

- acquire new customers who purchase products from us at the same rate and of the same type as our existing customer base;
- retain our customers and have them continue to purchase products from us at rates and in a manner consistent with their prior purchasing behavior;
- encourage customers to purchase daily disposable contact lenses or glasses from us, leading to increased AOV;
- increase the number of customers that use our Autoship subscription program for contact lenses;
- source new and/or retain existing vendors to supply quality products that we can offer to our customers at attractive prices;
- expand our private brand product offering, including the launch of glasses and expansion into new offerings such as progressive glasses and custom made lenses and frames;
- increase the awareness of our brand;
- provide our customers and vendors with a superior experience;
- develop new features to enhance the consumer experience on our website;
- respond to changes in consumer access to and use of the Internet and mobile devices;
- react to challenges from existing and new competitors;
- develop a scalable, high-performance technology and fulfillment infrastructure that can efficiently and reliably handle increased demand, as well as the deployment of new features and the sale of new products and services;
- fulfill and deliver orders in a timely way and in accordance with customer expectations, which may change over time;
- respond to macroeconomic trends;
- hire, integrate and retain talented personnel;
- maintain and leverage our technological and operational efficiencies;

- invest in the infrastructure underlying our website and other operational systems, including with respect to data protection and cybersecurity;
- expand into new offerings or new lines of business in which we do not have prior, or sufficient, operating experience, including operating our own online vision test or other telehealth initiatives;
- retain customers we acquired in the customer to migration to online purchases due to COVID-19; and
- continue to benefit from the transition of customers from stores to online purchases due to COVID-19.

Our ability to improve margins and maintain profitability will also depend on the factors described above. We cannot provide assurance that we will be able to successfully manage any of the foregoing challenges to our future growth. In addition, our customer base may not continue to grow or may decline as a result of the risks to our business set forth in this section, including increased competition and the maturation of our business. Any of these factors could cause our revenue growth to decline and may adversely affect our margins and profitability. Failure to continue our revenue growth or improve margins could have a material adverse effect on our business, financial condition, and results of operations. You should not rely on our historical rate of revenue growth, Run-Rate Revenue or revenue projections as an indication of our future operating performance and financial results. Revenue projections in this prospectus update and replace any previous disclosure of management's revenue estimates.

***Our limited operating experience and limited brand recognition in markets outside North America may limit our expansion efforts, subject us to additional risks and cause our business and growth to suffer.***

Our long term future growth depends, in part, on our expansion efforts outside North America. Our current operations are based largely in Canada and the United States. Therefore, our customer base and our operating experience outside Canada, and in particular outside North America, is limited. We also have limited experience with regulatory environments and market practices outside of North America, and cannot guarantee that we will be able to penetrate or successfully operate in any market outside of North America. In connection with any future expansion efforts outside of North America, we would expect to encounter many obstacles we do not face in North America, including cultural and linguistic differences, differences in regulatory environments and market practices, difficulties in keeping abreast of market, business and technical developments and foreign customers' tastes and preferences.

***We may incur a variety of costs to engage in the potential acquisition of complementary or strategic businesses or assets which forms part of our future growth strategy, and the anticipated benefits of such acquisition opportunities may never be realized.***

Our future growth strategy depends in part on our ability to acquire complementary or strategic businesses or assets. Any such acquisition could result in dilution, operating difficulties, difficulties in integrating acquired businesses and other adverse consequences.

We may acquire complementary or strategic businesses, technologies, services, and products as part of our strategy to increase our revenue and customer base. The integration of any future acquired business, technology, service, or product, may result in unforeseen operating difficulties and expenditures. The integration of any future acquisition also may require significant management resources that would otherwise be available for operation, ongoing development, and expansion of our business, additional costs as a result of the hiring of additional personnel or consultants to assist in the integration, or otherwise create disruptions in our existing business. To the extent that we miscalculate our ability to integrate and properly manage acquired businesses, or we depend on the continued service of acquired personnel who choose to leave, we may have difficulty in achieving our operating and strategic objectives. In addition, we may not realize the anticipated benefits of any acquisition.

We may be unable to identify suitable acquisition opportunities or to negotiate and complete acquisitions on favourable terms, or at all. In addition, any future acquisitions may require substantial capital resources and we may need to obtain additional capital or financing from time to time to fund these activities. This could result in potentially dilutive issuances of our securities or the incurrence of debt, contingent liabilities or amortization expenses related to goodwill and other intangible assets, any of which could harm our business, financial condition, and results of operation. Sufficient capital or financing for our acquisition activities may not be available to us on satisfactory terms, or at all.

We have previously undertaken certain acquisitions of assets and businesses. Although we perform reviews of targets prior to any such acquisitions we have undertaken or may undertake in the future, even an in-depth review of all records may not necessarily reveal existing or potential problems, nor will it permit us to become sufficiently familiar with the assets or business to comprehensively assess their deficiencies and capabilities. We may be required to assume pre-closing liabilities with respect to an acquisition and may acquire assets or businesses on an “as is” basis. These liabilities and risks could have, individually or in the aggregate, a material adverse effect on our business, financial condition and results of operations. In addition, competition for the acquisition of prospective targets is intense, which may increase the cost of any potential acquisition. There can be no assurance that any potential acquisition by us will be successful.

***We maintain certain insurance policies, but there is no guarantee that our insurance coverage will be sufficient, or that insurance proceeds will be timely paid to us.***

We maintain director and officer insurance, liability insurance, business interruption and property insurance and our insurance coverage includes deductibles, self-insured retentions, limits of liability and similar provisions. However, there is no guarantee that our insurance coverage will be sufficient, or that insurance proceeds will be timely paid to us. In respect of our suppliers and manufacturers who provide us with warranties and indemnities relating to product liability, there is no assurance that we will be successful in relying upon such warranties and indemnities, which may result in our exposure to such liability. In addition, there are types of losses we may incur but against which we cannot be insured or which we believe are not economically reasonable to insure, such as losses due to acts of war or certain natural disasters. If we incur these losses and they are material, our business, operating results and financial condition may be adversely affected. Also, certain material events may result in sizable losses for the insurance industry and materially adversely impact the availability of adequate insurance coverage or result in significant premium increases. Accordingly, we may elect to self-insure, accept higher deductibles or reduce the amount of coverage in response to such market changes.

***Our business is dependent on the rate of Internet usage and the ability of Internet infrastructure to support increased use.***

The Internet is rapidly evolving. A decrease in the growth of Internet usage could harm our business. The following factors may inhibit growth in Internet usage, visits to our websites or the number of orders placed through our websites: (i) inadequate Internet infrastructure; (ii) security and privacy concerns; (iii) inconsistent quality of service; and (iv) unavailability of low cost, high-speed Internet service.

Our success is dependent, in part, upon the ability of Internet infrastructure to support increase use. The performance and reliability of the Internet may decline as the number of users increases or the bandwidth requirements of users increase. The Internet has experienced a variety of outages due to damage to portions of its infrastructure. If outages or delays occur frequently in the future, Internet usage, including usage of our websites, could grow slowly or decline. Even if the necessary infrastructure or technologies are developed, we may have to spend considerable amounts of time and money to adapt and develop solutions accordingly.

***The satisfactory performance, reliability and availability of our websites, transaction processing systems and network infrastructure are critical to our reputation and our ability to attract and retain customers and to maintain adequate customer service levels.***

The satisfactory performance, reliability and availability of our websites, transaction processing systems and network infrastructure are critical to our reputation and our ability to attract and retain customers and to maintain adequate customer service levels. Our network and communications systems are vulnerable to system interruption and damage, which could harm our operations and reputation and lead to a material adverse effect on our business, financial condition and results of operations.

Our ability to receive and fulfill orders successfully is critical to our success and largely depends upon the efficient and uninterrupted operation of our computer and communications hardware and software systems. We experience periodic system interruptions that impair the performance of our transaction systems or make our websites inaccessible to customers. These systems interruptions may prevent us from efficiently accepting and fulfilling orders, sending out promotional e-mails and other customer communications in a timely manner, introducing new products and features on our websites, promptly responding to customers, or providing services to third parties. Frequent or persistent interruptions in our services could cause current or potential customers to believe that our systems are unreliable, which could cause

them to avoid our websites, drive them to our competitors, and harm our reputation. To minimize future system interruptions, we need to continue to add software and hardware and improve our systems and network infrastructure to accommodate increases in website traffic and sales volume. We may be unable to upgrade and expand our systems and integrate additional functionality into our existing systems in a cost effective and timely manner. Any of the aforementioned circumstances could have a material adverse effect on our business, financial condition and results of operations.

Our systems and operations, and those of our suppliers and Internet providers, are vulnerable to damage or interruption from fire, flood, earthquakes, power loss, server failure, telecommunications and Internet service failure, acts of war or terrorism, computer viruses and denial-of-service attacks, physical and electronic break-ins, sabotage, and similar events. Any of these events could lead to system interruptions, service delays and loss of critical data for us, our suppliers and our Internet service providers, and could prevent us from accepting and fulfilling customer orders. Any significant interruption in the availability or functionality of our websites or our customer processing, distribution or communications systems, for any reason, could have a material adverse effect on our business, financial condition and results of operations.

***We may not be able to successfully implement new technologies or adapt our websites, proprietary technology and transaction processing systems to customer requirements or emerging industry standards.***

As the Internet and online commerce industry evolves, we must license leading technology useful in our business, enhance our existing services and develop new services and technologies that address the increasingly sophisticated and varied needs of our prospective customers and respond to technological advances and emerging industry standards and practices on a cost effective and timely basis. We may not be able to successfully implement new technologies or adapt our websites, proprietary technology and transaction processing systems to customer requirements or emerging industry standards. If we are unable to do so, it could have a material adverse effect on our business, financial condition and results of operations.

***Mobile devices are increasingly being used to conduct commerce, and if our solutions do not operate as effectively when accessed through these devices, our customers may not be satisfied with our services, which could harm our business.***

We are dependent on the interoperability of our website with third-party mobile devices and mobile operating systems as well as web browsers that we do not control. Any changes in such devices, systems or web browsers that degrade the functionality of our platform or give preferential treatment to competitive services could adversely affect usage of our platform. Effective mobile functionality is integral to our long-term development and growth strategy. In the event that our customers have difficulty accessing and using our platform on mobile devices, our business and operating results could be adversely affected.

***We rely on search engines and social networking sites to attract a meaningful portion of our customers. If we are not able to generate traffic to our website through search engines and social networking sites, our ability to attract new customers may be impaired.***

Many of our customers locate our website through Internet search engines, such as Google and Yahoo, and advertisements on social networking sites, such as Facebook and Instagram. The prominence of our website in response to Internet searches is a critical factor in attracting potential customers to our platform. If we are listed less prominently or fail to appear in search results for any reason, visits to our website could decline significantly, and we may not be able to replace this traffic.

Search engines revise their algorithms from time to time in an attempt to optimize their search results. If search engines modify their algorithms, our website may appear less prominently or not at all in search results, which could result in reduced traffic to our website.

Additionally, if the price of marketing our solutions over search engines or social networking sites increases, we may incur significant additional marketing expenses or may be required to allocate a larger portion of our marketing spend to search engine marketing and our business and operating results could be adversely affected. Furthermore, competitors may in the future bid on the search terms that we use to drive traffic to our website. Such actions could increase our marketing costs and result in decreased traffic to our website.

In addition, search engines or social networking sites may change their advertising policies from time to time. If any change to these policies delays or prevents us from advertising through these channels, it could result in reduced traffic to our website and sales of our solutions. As well, new search engines or social networking sites may develop, particularly in specific jurisdictions, that reduce traffic on existing search engines and social networking sites, and if we are not able to achieve prominence through advertising or otherwise, we may not achieve significant traffic to our website through these new platforms and our business and operating results could be adversely affected.

***We are exposed to cybersecurity risks.***

Experienced computer programmers and hackers, or even internal users, may be able to penetrate or create systems disruptions or cause shutdowns of our network security or that of third party companies with which we have contracted to provide services. We generally collect and store customer information for marketing purposes and any compromise of customer information could subject us to customer or government litigation and harm our reputation, which could adversely affect our business and growth. Moreover, we could incur significant expenses or disruptions of our operations in connection with system failures or data breaches. An increasing number of websites, including several large Internet companies, have recently disclosed breaches of their security, some of which have involved sophisticated and highly targeted attacks on portions of their sites. Because the techniques used to obtain unauthorized access, disable or degrade services or sabotage systems, change frequently and often are not recognized until launched against a target, we may be unable to anticipate these techniques or to implement adequate preventative measures. In addition, sophisticated hardware and operating system software and applications that we buy or license from third parties may contain defects in design or manufacture, including “bugs” and other problems that could unexpectedly interfere with the security and operation of the systems. The costs to us to eliminate or alleviate security problems, viruses and bugs could be significant, and efforts to address these problems could result in interruptions, delays or cessation of service that may impede our sales, distribution or other critical functions.

In addition, many jurisdictions in which we operate have adopted breach of privacy and data security laws or regulations that require notification to consumers if the security of their personal information is breached, among other requirements. Governmental focus on data security may lead to additional legislative action, and the increased emphasis on information security may lead customers to request that we take additional measures to enhance security or restrict the manner in which we collect and use customer information to gather insights into customer behaviour and develop our marketing programs. As a result, we may have to modify our business systems and practices with the goal of further improving data security, which would result in increased expenditures and operating complexity. Any compromise of our security or accidental loss or theft of customer data in our possession could result in a violation of applicable privacy and other laws, significant legal and financial exposure and damage to our reputation, which could adversely impact our business and results of operations.

Secured transmission of confidential information over the Internet is essential to maintaining customer confidence. Substantial or ongoing security breaches of our systems or other related Internet-based systems could significantly harm our business. Any penetration of our network security or other misappropriation of our users’ personal information could subject us to liability and damage our reputation. We may be liable for claims based on unauthorized purchases with credit card information, impersonation or other similar fraud claims. Claims could also be based on other misuses of personal information, such as for unauthorized marketing purposes. These claims could result in litigation and financial liability. We rely on licensed encryption and authentication technology to effect secured transmissions of confidential information, including credit card numbers. It is possible that advances in computer capabilities, new discoveries or other developments could result in the technology we use to protect our customers’ transaction data becoming obsolete or ineffective.

We may incur substantial expenses to protect against and remedy security breaches and their consequences. Our insurance policies may not be adequate to reimburse us for losses cause by security breaches. We cannot guarantee that our security measures will prevent security breaches.

***We are subject to risks associated with accepting electronic payments.***

We accept payments using a variety of methods, including credit cards and debit cards. For existing and future payment methods we offer to our customers, we may become subject to additional regulations and compliance requirements, as well as fraud. For certain payment methods, including credit and debit cards, we may pay interchange and other fees, which may increase over time, raising our operating costs and lowering profitability. We rely on third party service providers for

payment processing services, including the processing of credit and debit cards. Our business may be negatively affected if these third party service providers become unwilling or unable to provide these services to us. We are also subject to payment card association operating rules, including data security rules, certification requirements and rules governing electronic funds transfers and if we fail to comply with these rules or requirements, or if our data security systems are breached or compromised, we may be liable for card issuing banks' costs, subject to fines and higher transaction fees and/or lose our ability to accept credit and debit card payments from our customers and process electronic funds transfers or facilitate other types of payments, and our business and operating results could be adversely affected.

Due to the fact that the Company relies heavily on mail delivery systems to deliver its disposable contact lenses and receives a majority of its payments from customers using credit cards, any increase in shipping, postal or credit card processing rates could have an adverse effect on the Company's operating results as the Company may not be able to effectively pass such increases on to its customers.

***We are exposed to litigation risk.***

The Company may be involved in disputes with third parties in the future, which may result in litigation. If we are unable to resolve these disputes favourably, it may have a material adverse effect on the Company's financial condition, cash flows and results of operations. Certain of our competitors and other industry members have been exposed to class actions claiming violation of antitrust laws, as well as threats and claims relating to, among other things, off-branded or counterfeit products and issues around the distribution and supply of products to customers. There is no assurance that we will not be exposed to these types of claims and that we will be able to successfully defend against such claims. If any such claim is successfully advanced against us, it could have a material adverse effect on the Company's financial condition, cash flows and results of operations.

***We have exposure to product liability and personal injury claims related to our products.***

We sell optical products and services to the general public, including private label products. Consequently, we have exposure to product liability and personal injury claims related to those products. Such liability could result from, for example, circumstances where KITS delivers contact lenses or eyeglasses that do not meet the customer's prescription or where the prescription from the optometrist is incorrect and KITS fulfills the order, and damages result therefrom prior to the customer taking steps to correct this error. Although we believe these risks are remote, product liability or personal injury claims brought against us could result in diverted management time, significant adverse publicity and could be costly to defend or settle. Such liability is generally covered by our suppliers, however those that are not may not be adequately subject to our insurance coverage and could have a material adverse effect on our business, financial condition and results of operations.

***We post product information and other content on our websites and as such we face potential liability in respect of possible claims based on the nature and content of the materials posted.***

Due to the fact that we post product information and other content on our websites, we face potential liability for negligence, copyright, patent or trademark infringement, defamation and other claims based on the nature and content of the materials posted. In the past, such claims have been brought, in some cases successfully, against the Internet content distributors. In addition, we could be exposed to liability with respect to unauthorized duplication of content or unauthorized use of another party's proprietary technology. Although we maintain general liability insurance, our insurance may not cover potential claims of this type or may not be adequate to indemnify us for all liability that may be imposed. Any imposition of liability that is not covered by insurance or that is in excess of insurance coverage could have a material adverse effect on our business, financial condition and results of operations.

***If our management, employees, suppliers, manufacturers or others fail to comply with any laws or regulations for any reason, we could become subject to enforcement actions.***

We are subject to numerous laws and regulations, including labour and employment, consumer protection, health and safety, human rights, advertising, environmental, customs, taxes and other laws that regulate or govern the importation, labeling, promotion, distribution and sale of products and the operation of our centres. If our management, employees, suppliers, manufacturers or others fail to comply with any of these laws or regulations for any reason, we could become subject to enforcement actions or the imposition of significant penalties or claims, or suffer reputational harm, any of which could adversely affect our business. Additionally, although we undertake to monitor applicable laws, it is possible changes

may be implemented or new laws or regulations may be introduced without our knowledge, creating a greater risk of non-compliance. The adoption of new laws or regulations or requirements for public companies or changes in the interpretation of existing laws or regulations may result in increased compliance costs and could make the ordinary conduct of our business more expensive or require us to change the way we do business. It is often difficult for us to plan and prepare for potential changes to applicable laws, and future actions or expenses related to any such changes could be material to us.

We could be adversely affected if consumers lose confidence in the safety and quality of our vendor-supplied and private brand contact lens and eyewear products. All of our suppliers are required to comply with applicable product safety laws and we are dependent upon them to ensure such compliance. Adverse publicity about these types of concerns, whether valid or not, may discourage consumers from buying the products we offer, or cause supplier production and delivery disruptions. We or our suppliers could be exposed to governmental enforcement action or private litigation, or costly recalls and loss of consumer confidence, any of which could have an adverse effect on our business, financial condition, and results of operations. Our insurance may not be adequate to cover all liabilities we may incur in connection with product liability claims. In addition, we may be unable to continue to maintain our existing insurance, obtain comparable insurance at a reasonable cost, if at all, or secure additional coverage, which may result in future product liability claims being uninsured.

***Natural disasters, unusual weather, and geo-political events or acts of terrorism could adversely affect our operations and financial results.***

Extreme weather conditions in the areas in which we operate could adversely affect our business, notably in the areas in which our fulfillment centres and optical labs are located. Reduced revenue from extreme or prolonged unseasonable weather conditions could adversely affect our business.

In addition, natural disasters such as hurricanes, tornadoes, forest fires and earthquakes, or a combination of these or other factors, could severely damage or destroy one or more of our facilities located in the affected areas, thereby disrupting our business operations.

Furthermore, unstable political conditions or civil unrest, including terrorist activities, military and domestic disturbances and conflicts, may disrupt commerce, our supply chain operations, international trade or result in political or economic instability and could have a material adverse effect on our business and results of operations.

***Public health crisis due to epidemic and pandemic diseases such as COVID-19 may adversely affect our business.***

Our business could be significantly adversely affected by the effects of a widespread global outbreak of contagious disease, including the recent outbreak of a respiratory illness caused by COVID-19, which was declared a pandemic in March 2020 by the World Health Organization. This contagious disease outbreak, which has continued to spread, and any related adverse public health developments, has adversely affected workforces, economies, and financial markets globally, leading to an overall economic downturn. As at the date hereof, the global reactions to the spread of COVID-19 have led to, among other things, numerous governments declaring emergencies and implementing measures to attempt to contain the virus, such as restrictions on travel and gatherings of individuals, quarantines, temporary business closures and other restrictions. While these effects are expected to be temporary, the duration of the disruptions to business internationally and the related financial impact cannot be estimated with any degree of certainty at this time.

In particular, the continued spread of COVID-19 globally could materially and adversely impact our business, including without limitation, decreases in the demand for our products, employee health, workforce availability and productivity, limitations on travel, work delays, supply chain disruptions, increased insurance premiums, and the slowdown or temporary suspension of operations at our distribution centres. Any such disruptions or closures could have a material adverse effect on the Company's business. In addition, parties with whom the Company does business or on whom the Company is reliant may also be adversely impacted by the COVID-19 crisis which may in turn cause further disruption to the Company's business. Any long-term closures or suspensions may also result in the loss of personnel or the workforce in general as employees seek employment elsewhere. The impact of COVID-19 and government responses thereto may also continue to materially impact and cause volatility in financial markets and could constrain the Company's ability to obtain equity or debt financing in the future, which may have a material and adverse effect on its business, financial condition and results of operations. COVID-19 represents a significant and unprecedented challenge for many businesses. Energy and focus is being put into maintaining government regulations, including our own mandates for a safe and healthy workplace, while maintaining as strong an employment framework for our people as possible. We are unable to predict how the issue will impact our activities in the fourth quarter of 2020. In order to maintain consistent supply availability for our customers, we

increased our inventory significantly following the outbreak of COVID-19, decreasing our cash position. There can be no assurance that the ability to continue to operate the Company's business will not be adversely impacted, in particular if material delays or disruptions affect our supply chain.

***Changes in laws and policy relating to taxes or trade may have an adverse effect on our business.***

Changes in laws and policy relating to taxes or trade may have an adverse effect on our business, financial condition and results of operations. Potential tax reforms in Canada and the United States may result in significant changes to current tax rules and regulations. These changes could have a material adverse effect on our business, results of operations and liquidity. Furthermore, the United States is Canada's largest trading and investment partner. The Canadian economy is significantly affected by developments in the U.S. economy. Since the implementation of the North American Free Trade Agreement ("NAFTA") in 1994 among Canada, the United States and Mexico, total merchandise trade among the three countries has increased. Notwithstanding the implementation of the Canada-United States-Mexico Agreement, which replaced NAFTA, there remains uncertainty in the United States regarding current tax and trade law, regulation and government policy, and some proposals discussed recently have the potential to adversely affect U.S. trade relationships with Canada and China. Changes in U.S.-Canada or U.S.-China trade relations and changes to U.S. tax or other laws (including new or changes in regulations promulgated by the U.S. Internal Revenue Service and the U.S. Department of the Treasury) as well as changes in Canadian or Chinese laws and regulations, such as the imposition of or increase in tariffs or other trade barriers, could materially and adversely impact our effective tax rate, increase our costs and reduce the competitiveness of our products in the North American market.

***We are subject to a number of different tax jurisdictions worldwide and the complexity of our multinational operations could subject us to unforeseen income and commodity tax exposure.***

We market and sell products in a number of tax jurisdictions worldwide. Each jurisdiction has its own sales tax, value added tax and income tax regimes. These rules are complex and generally different in each jurisdiction. The complexity of our multinational operations could subject us to unforeseen income and commodity tax exposure. In addition, some jurisdictions have sought to impose sales tax collection obligations on out-of-jurisdiction direct marketing companies such as ours. A successful assertion by one or more jurisdictions that we must, or should have, collected more sales tax that we currently collect or that we are subject to additional income tax could materially and adversely affect our operating results and could require us to increase the price of our products to our customers, which could adversely affect our business, financial condition and results of operations.

***Our gross margins may fluctuate.***

While we expect our gross profit to increase in absolute dollars in future periods, we expect that our gross profit as a percentage of revenue has and will fluctuate and has and may decrease as a result of the competitive and other factors described herein. Our gross profit is impacted by a number of factors. Should the competitive dynamic change in our industry (which could impact our margins through forces including but not limited to requiring us to alter our pricing strategy or requiring additional promotional activity), then we may not be able to continue to operate at our current margins. Additionally, should unforeseen events require our Company to make significant and unplanned investments, our gross profit margins could be materially reduced.

Our product gross profit margin could decline in future periods due to adverse impacts from various factors, including:

- changes in customer, geographic, or product mix, including mix of configurations within each product group;
- introduction of new products, including products with price-performance advantages, and new business models including the transformation of our business to deliver more software and subscription offerings;
- our ability to reduce production costs;
- entry into new markets or growth in lower margin markets, including markets with different pricing and cost structures, through acquisitions or internal development;
- sales discounts;
- increases in material, labour or other manufacturing-related costs, which could be significant especially during periods of supply constraints such as those impacting the market for memory component;
- excess inventory and inventory holding charges;
- obsolescence charges;

- changes in shipment volume;
- the timing of revenue recognition and revenue deferrals;
- increased cost (including those caused by tariffs), loss of cost savings or dilution of savings due to changes in component pricing or charges incurred due to inventory holding periods if parts ordering does not correctly anticipate product demand or if the financial health of either contract manufacturers or suppliers deteriorates;
- lower than expected benefits from value engineering;
- increased price competition, including competitors from Asia, especially from China;
- changes in distribution channels;
- increased warranty costs;
- increased amortization of purchased intangible assets, especially from acquisitions; and
- how well we execute on our strategy and operating plans.

***Increases in compensation, wage pressure and other expenses for vision care professionals, as well as our other employees, may adversely affect our profitability.***

Increases in compensation, wage pressure and other expenses for vision care professionals, as well as our other employees, may adversely affect our profitability. Increases in minimum wages and other wage and hour regulations can exacerbate this risk. Additional tariffs or other future cost increases, such as increases in the cost of merchandise, shipping rates, raw material prices and freight costs, may also reduce our profitability. These cost increases may be the result of inflationary pressures which could further reduce our sales or profitability. Increases in other operating costs, including changes in energy prices and lease and utility costs, may increase our cost of products sold or selling, general and administrative expenses. Our low price model and competitive pressures in the optical retail industry may inhibit our ability to reflect these increased costs in the prices of our products, in which case such increased costs could have a material adverse effect on our business, financial condition and results of operations.

***Union attempts to organize our employees could negatively affect our business.***

None of our employees are currently subject to a collective bargaining agreement. As we continue to grow, unions may attempt to organize all or part of our employee base at distribution centres. Responding to such organization attempts may distract management and employees and may have a negative financial impact on our business.

The maintenance of a productive and efficient labour environment and, in the event of unionization of these employees, the successful negotiation of a collective bargaining agreement, cannot be assured. Protracted and extensive work stoppages or labour disruptions such as strikes or lockouts could have a material adverse effect on our business, financial condition and results of operations.

***The terms of the BDC Loan and any additional debt financing may restrict our current and future operations, which could adversely affect our ability to manage our operations and respond to changes in our business.***

We are currently indebted under the BDC Loan and we may incur additional indebtedness in the future. We are exposed to changes in interest rates on our bank indebtedness and long-term debt. Debt issued at variable rates exposes us to cash flow interest rate risk. Debt issued at fixed rates exposes us to fair value interest rate risk. Our borrowings, current and future, will require interest payments and need to be repaid or refinanced, could require us to divert funds identified for other purposes to debt service and could create additional cash demands or impair our liquidity position and add financial risk for us. Diverting funds identified for other purposes for debt service may adversely affect our business and growth prospects. If we cannot generate sufficient cash flow from operations to service our debt, we may need to refinance our debt, dispose of assets, reduce or delay expenditures or issue equity to obtain necessary funds. We do not know whether we would be able to take any of these actions on a timely basis, on terms satisfactory to us, or at all.

The BDC Loan contains restrictive financial and other covenants which affect, among other things, the manner in which we may structure or operate our business. Our ability to satisfy these restrictive covenants could be affected by factors outside our control, such as a slowdown in economic activity which could result in a reduction of our operating revenue or profitability. The restrictions could further limit our ability to plan for, or react to, market conditions or meet extraordinary capital needs or otherwise restrict corporate activities. For example, the restrictions could affect, and in many respects limit or prohibit, among other things, our financial flexibility to pursue acquisition opportunities and other activities in furtherance of our strategy or our ability to pay dividends, incur additional indebtedness, create liens or sell assets. A failure by us to

comply with our contractual obligations (including restrictive, financial and other covenants), or to pay our indebtedness and fixed costs under our current or future financing arrangements could result in a variety of material adverse consequences, including the acceleration of our indebtedness and the exercise of remedies by our creditors, and such defaults could trigger additional defaults under other agreements. In such a situation, it is unlikely that we would be able to repay the accelerated indebtedness or fulfill our obligations under certain contracts, or otherwise cover our fixed costs, and our future financial condition would be materially adversely affected.

Our degree of leverage could have a material adverse effect on our business and results of operations, including: limiting our ability to obtain additional financing for working capital, capital expenditures, debt service requirements, acquisitions and general corporate or other purposes; restricting our flexibility and discretion to operate our business; limiting our ability to declare dividends on our securities; having to dedicate a portion of our cash flows from operations to the payment of interest on our existing indebtedness and not having such cash flows available for other purposes; exposing our business to debt capital market risks, including interest rate risk and refinancing risk at maturity; exposing us to increased interest expense on borrowings at variable rates; limiting our ability to adjust to changing market conditions; placing us at a competitive disadvantage compared to our competitors that have less debt; making us vulnerable in a downturn in general economic conditions; and making us unable to make expenditures that are important to our growth strategies.

***Fluctuations in the value of the Canadian dollar in relation to the U.S. dollar and other currencies may impact our operating and financial results.***

We are exposed to market risks attributable to fluctuations in foreign currency exchange rates, primarily changes in the value of the Canadian dollar versus the U.S. dollar. Exchange rate fluctuations could have an adverse effect on our operating and financial results. Changes in exchange rates between the Canadian dollar and the U.S. dollar may have a significant, and potentially adverse, effect on our results of operations.

Our financial statements are presented in accordance with IFRS, and we report, and intend to continue to report, our results in Canadian dollars. Any change in the value of the U.S. dollar relative to the Canadian dollar during a given financial reporting period would result in a foreign currency loss or gain on the translation of U.S. dollar denominated sales and costs. Consequently, our reported earnings could fluctuate materially as a result of foreign exchange translation gains or losses and may not be comparable from period to period. For example, a 10% increase in the value of the Canadian dollar compared to the U.S. dollar would have reduced our consolidated revenue for the year ended December 31, 2019 by \$3.69 million.

***Significant merchandise returns or refunds could harm our business.***

We allow our customers to return products or offer refunds in certain circumstances, subject to our return and refunds policy. If merchandise returns or refunds are significant or higher than anticipated and forecasted, our business, financial condition, and results of operations could be adversely affected. Further, we modify our policies relating to returns or refunds from time to time, and may do so in the future, which may result in customer dissatisfaction and harm to our reputation or brand, or an increase in the number of product returns or the amount of refunds we make.

***Alternative procedures, or other alternative technologies that may be developed in the future, may cause a substantial decline in the number of contact lens and eyeglass wearers.***

We encounter competition from alternative technologies, such as surgical refractive procedures, including refractive laser procedures such as PRK, or photorefractive keratectomy, and LASIK, or laser in situ keratomileusis. As surgical refractive procedures become increasingly accepted as an effective and safe technique for permanent vision correction, they could substantially reduce the demand for our products. Accordingly, these procedures, or other alternative technologies that may be developed in the future, may cause a substantial decline in the number of contact lens and eyeglass wearers and could have a material adverse effect on our business and financial condition.

***We will incur increased expenses as a result of being a public company and our current resources may not be sufficient to fulfill our public company obligations.***

We will incur significant legal, accounting, insurance, and other expenses as a result of being a public company, which may negatively impact our performance and could cause our results of operations and financial condition to suffer. Compliance with applicable securities laws in Canada and the rules of the TSX will substantially increase our expenses, including our legal and accounting costs, and make some activities more time-consuming and costly. Reporting obligations

as a public company and our anticipated growth may place a strain on our financial and management systems, processes and controls, as well as on our personnel. Our management may need to devote a substantial amount of time to ensure compliance with these rules, diverting the attention of management away from revenue-producing activities.

We also expect these laws, rules and regulations to make it more expensive for us to obtain director and officer liability insurance, and we may be required to accept reduced policy limits and coverage or incur substantially higher costs to obtain the same or similar coverage. As a result, it may be more difficult for us to attract and retain qualified persons to serve on our Board or as officers. As a result of the foregoing, we expect a substantial increase in legal, accounting, insurance, and certain other expenses in the future, which will impact our financial performance and could cause our results of operations and financial condition to suffer.

We are responsible for establishing and maintaining adequate internal controls over financial reporting, which 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. A failure to prevent or detect errors or misstatements may result in a decline in the price of our Common Shares and harm our ability to raise capital in the future. If our management is unable to certify the effectiveness of our internal controls or if material weaknesses in our internal controls are identified, we could be subject to regulatory scrutiny and a loss of public confidence, which could harm our business and cause a decline in the price of our Common Shares. In addition, if we do not maintain adequate financial and management personnel, processes and controls, we may not be able to accurately report our financial performance on a timely basis, which could cause a decline in the price of our Common Shares and harm our ability to raise capital. Failure to accurately report our financial performance on a timely basis could also jeopardize our listing on the TSX or any other stock exchange on which our Common Shares may be listed. Delisting of our Common Shares on any exchange would reduce the liquidity of the market for our Common Shares, which would reduce the price of and increase the volatility of the price of our Common Shares.

A control system, no matter how well-designed and implemented, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Due to the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues within an organization are detected. The inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple errors or mistakes. Controls can also be circumvented by individual acts of certain persons, by collusion of two or more people or by management override of the controls. Due to the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and may not be detected in a timely manner or at all. If we cannot provide reliable financial reports or prevent fraud, our reputation and operating results could be materially adversely effected, which could also cause investors to lose confidence in our reported financial information, which in turn could result in a reduction in the trading price of the Common Shares.

***Changes in accounting standards could significantly affect our reported financial performance.***

Generally accepted accounting principles and related accounting pronouncements, implementation guidelines and interpretations with regard to a wide range of matters that are relevant to our business, including but not limited to revenue recognition, impairment of goodwill and intangible assets, inventory, income taxes and litigation, are highly complex and involve many subjective assumptions, estimates and judgments. Changes in these rules or their interpretation or changes in underlying assumptions, estimates or judgments could significantly change our reported financial performance or financial condition in accordance with generally accepted accounting principles.

**Risks Related to the Offering and Ownership of Our Shares**

***The market price for Common Shares may be volatile.***

The market price of our Common Shares could be subject to significant fluctuations after the Offering, and it may decline below the Offering Price. Some of the factors that may cause the market price of our Common Shares to fluctuate include:

- volatility in the market price and trading volume of comparable companies;
- actual or anticipated changes or fluctuations in our operating results or in the expectations of market analysts;
- adverse market reaction to any indebtedness we may incur or securities we may issue in the future;
- short sales, hedging and other derivative transactions in our Common Shares;

- litigation or regulatory action against us;
- investors' general perception of us and the public's reaction to our press releases, our other public announcements and our filings with Canadian securities regulators, including our financial statements;
- publication of research reports or news stories about us, our competitors or our industry;
- positive or negative recommendations or withdrawal of research coverage by securities analysts;
- changes in general political, economic, industry and market conditions and trends;
- sales of our Common Shares by existing shareholders, in particular the Principal Shareholders;
- recruitment or departure of key personnel;
- significant acquisitions or business combinations, strategic partnerships, joint ventures or capital commitments by or involving us or our competitors; and
- the other risk factors described in this section of this prospectus.

Additionally, these factors, as well as other related factors, may cause decreases in asset values that are deemed to be other than temporary, which may result in impairment losses. As well, certain institutional investors may base their investment decisions on consideration of our environmental, governance and social practices and performance against such institutions' respective investment guidelines and criteria, and failure to satisfy such criteria may result in limited or no investment in the Common Shares by those institutions, which could materially adversely affect the trading price of the Common Shares. There can be no assurance that continuing fluctuations in price and volume will not occur. If such increased levels of volatility and market turmoil continue for a protracted period of time, our operations and the trading price of the Common Shares may be materially adversely effected.

In addition, broad market and industry factors may harm the market price of our Common Shares. Hence, the price of our Common Shares could fluctuate based upon factors that have little or nothing to do with us, and these fluctuations could materially reduce the price of our Common Shares regardless of our operating performance. In the past, following a significant decline in the market price of a company's securities, there have been instances of securities class action litigation having been instituted against that company. If we were involved in any similar litigation, we could incur substantial costs, our management's attention and resources could be diverted and it could harm our business, operating results and financial condition.

Sales of a substantial number of our Common Shares in the public market could occur at any time after the expiration of the contractual lock-up period described in the "Plan of Distribution – Lock-up Arrangements" section of this prospectus. These sales, or the market perception that the holders of a large number of Common Shares intend to sell Common Shares, could significantly reduce the market price of our Common Shares and the market price could decline below the Offering Price. We cannot predict the effect, if any, that future public sales of these securities or the availability of these securities for sale will have on the market price of our Common Shares. If the market price of our Common Shares was to drop as a result, this might impede our ability to raise additional capital and might cause remaining shareholders to lose all or part of their investments.

The intentions of the Principal Shareholders regarding their long-term economic ownership are subject to change. Factors that could cause the Principal Shareholders' current intentions to change include changes in each of their personal circumstances, our succession planning or changes in our management, changes in tax laws, market conditions and our financial performance.

Further, we cannot predict the size of future issuances of our Common Shares or the effect, if any, that future issuances and sales of our Common Shares will have on the market price of our Common Shares. Sales of substantial amounts of our Common Shares, or the perception that such sales could occur, may adversely affect prevailing market prices for our Common Shares. See "Additional equity offerings may dilute existing shareholders and/or have an adverse impact on the price of our Common Shares."

***An active, liquid and orderly trading market for our Common Shares may not develop.***

We intend to apply for the listing of the Common Shares on the TSX. There is currently no market through which our Common Shares may be sold and, if a market for our Common Shares does not develop or is not sustained, you may not be able to resell your Common Shares purchased in the Offering. This may affect the pricing of the Common Shares in the secondary market, the transparency and availability of trading prices, the liquidity of the Common Shares and the extent of issuer regulation. The Offering Price of our Common Shares was determined through negotiations between us and the

Agents. The Offering Price may not be indicative of the market price of our Common Shares after the Offering. In the absence of an active trading market for our Common Shares, investors may have difficulty selling their Common Shares. We cannot predict the prices at which our Common Shares will trade.

***Additional equity offerings may dilute existing shareholders and/or have an adverse impact on the price of our Common Shares.***

We have the authority to issue an unlimited number of Common Shares and Preferred Shares. We may undertake additional offerings or issuances of securities in the future in connection with our plans to grow our business or otherwise. The increase in the number of Common Shares outstanding and the possibility of sales or issuances of such Common Shares may have a negative impact on the price of Common Shares already outstanding. In addition, in the event of an issuance of additional Common Shares, the voting power of our existing shareholders would be diluted and any such dilution may be significant.

***Impact of securities or industry analysts' reports.***

The trading market for our Common Shares will depend in part on the research and reports that securities or industry analysts publish about us or our business. We do not currently have and may never obtain research coverage by securities and industry analysts. If no securities or industry analysts commence covering us, the trading price for our Common Shares would be negatively impacted. If we obtain securities or industry analyst coverage and if one or more of the analysts who cover us downgrade our Common Shares or publish inaccurate or unfavourable research about our business, our trading price may decline. If one or more of these analysts cease coverage of us or fail to publish reports on us regularly, demand for our Common Shares could decrease, which could cause our trading price and volume to decline.

***Risks related to control by certain shareholders.***

After giving effect to the Offering and the Pre-Closing Capital Changes, the Principal Shareholders will collectively hold approximately 77.2% of our total issued and outstanding Common Shares (approximately 74.1% if the Over-Allotment Option is exercised in full). As a result, the Principal Shareholders will have a significant influence over us, including election of directors and significant corporate transactions.

The concentrated voting control of our Principal Shareholders will limit the ability of holders of the remaining Common Shares to influence corporate matters for the foreseeable future, including the election of directors as well as with respect to decisions regarding amendment of our share capital, creating and issuing additional classes of shares, making significant acquisitions, selling significant assets or parts of our business, merging with other companies and undertaking other significant transactions. As a result, the Principal Shareholders will have the ability to influence many matters affecting us and actions may be taken that other shareholders may not view as beneficial. The market price of our Common Shares could be adversely affected due to the significant influence and voting power of the Principal Shareholders. Additionally, the significant voting interest of the Principal Shareholders may discourage transactions involving a change of control, including transactions in which an investor, as a holder of the Common Shares, might otherwise receive a premium for over the then-current market price, or discourage competing proposals if a going private transaction is proposed by one or more Principal Shareholders.

***Potential future issuance of Preferred Shares.***

Upon completion of the Offering, our Board will have the authority to issue Preferred Shares and to determine the preferences, limitations and relative rights of Preferred Shares and to fix the number of shares constituting any series and the designation of such series, without any further vote or action by our shareholders. Our Preferred Shares could be issued with liquidation, dividend and other rights superior to the rights of our Common Shares. The potential issuance of Preferred Shares may delay or prevent a change in control of us, discourage bids for our Common Shares at a premium over the market price and adversely affect the market price and other rights of the holders of our Common Shares.

***The Board has broad discretion over the use of proceeds and may elect to allocate net proceeds differently from that described under "Use of Proceeds".***

The Company currently intends to use the net proceeds received from the Offering as described under "Use of Proceeds". However, the Company has broad discretion over the actual use of the net proceeds and may elect to allocate

net proceeds differently from that described under "Use of Proceeds" if determined to be in the Company's best interests to do so. Shareholders may not agree with the manner in which the Company chooses to allocate and spend the net proceeds. The failure by the Company to use the net proceeds effectively could have a material adverse effect on the Company's business.

***Risks related to the book-based system.***

Unless and until certificated Common Shares are issued in exchange for book-entry interests in the Common Shares, owners of the book-entry interests will not be considered owners or holders of Common Shares. Instead, the depository or its nominee will be the sole holder of the Common Shares. Unlike holders of the Common Shares themselves, owners of book-based interests will not have the direct right to act upon the Company's solicitations or requests or other actions from holders of the Common Shares. Instead, holders of beneficial interests in the Common Shares will be permitted to act only to the extent such holders have received appropriate proxies to do so from CDS or, if applicable, a CDS Participant. There is no assurance that procedures implemented for the granting of such proxies will be sufficient to enable holders of beneficial interests in the Common Shares to vote on any requested actions on a timely basis. See "Plan of Distribution – Book-Based System".

***Your ability to enforce U.S. civil liabilities may be limited.***

We are a corporation incorporated and existing under the laws of Canada. A substantial portion of our assets are located outside of the United States and certain of our officers and directors are residents of Canada or otherwise reside outside of the United States, and a substantial portion of their assets are located outside of the United States. As a result, it may be difficult for United States shareholders to effect service of process within the United States upon those officers or directors who are not residents of the United States, or to realize in the United States upon judgments of courts of the United States predicated upon civil liabilities of such officers or directors under United States federal securities laws.

***We do not expect to pay any cash dividends for the foreseeable future.***

We currently expect to retain all available funds and future earnings, if any, for use in the operation and growth of our business and do not anticipate paying any cash dividends in the foreseeable future. Any future determination to pay dividends will be at the discretion of our Board, subject to compliance with applicable law and any contractual provisions, including under the BDC Loan and other agreements for indebtedness we may incur, that restrict or limit our ability to pay dividends, and will depend upon, among other factors, our results of operations, financial condition, earnings, capital requirements and other factors that our Board deems relevant. Accordingly, if you purchase Common Shares in the Offering, realization of a gain on your investment will depend on the appreciation of the price of our Common Shares, which may never occur. Investors seeking cash dividends in the foreseeable future should not purchase our Common Shares.

## **LEGAL PROCEEDINGS**

We are, from time to time, involved in legal proceedings of a nature considered normal to our business. We believe that none of the litigation in which we are currently involved, or have been involved since the beginning of the most recently completed financial year, individually or in the aggregate, is material to our consolidated financial condition or results of operations.

## **LEGAL MATTERS**

The matters referred to under "Eligibility for Investment" and "Certain Canadian Federal Income Tax Considerations", as well as certain other legal matters relating to the issue and sale of the Common Shares, will be passed upon on our behalf by Sangra Moller LLP and on behalf of the Agents by Blake, Cassels & Graydon LLP. As at the date of this prospectus, the partners and associates of each of Sangra Moller LLP and Blake, Cassels & Graydon LLP beneficially own, directly and indirectly, less than 1% of our outstanding securities or other property, our associates or our affiliates.

## **INTERESTS OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS**

Other than as described elsewhere in this prospectus, there are no material interests, direct or indirect, of any of our directors or executive officers, any shareholder that beneficially owns, or controls or directs (directly or indirectly), more than 10% of any class or series of our outstanding voting securities, or any associate or affiliate of any of the foregoing

persons, in any transaction within the three years before the date hereof that has materially affected or is reasonably expected to materially affect us or any of our subsidiaries. See "Management's Discussion and Analysis of Financial Condition and Results of Operations – Related Party Transactions". See "The Business of KITS – Our History" for a description of the Acquisition. The shareholders of LD Vision Group included Mr. Arshil Abdulla, currently a director and the Chief Technology Officer of KITS, and Mr. Fayaz Abdulla, currently a director of KITS.

### **AUDITOR, TRANSFER AGENT AND REGISTRAR**

MNP LLP, located at Vancouver, British Columbia, is our auditor and has confirmed that it is independent of the Company within the meaning of the Code of Professional Conduct of the Chartered Professional Accountants of British Columbia.

The financial statements of Kits Eyecare Ltd. for the year ended December 31, 2019 and for the period from October 19, 2018 (date of incorporation) to December 31, 2018 and the related financial statement schedules included in this prospectus, and the financial statements of Kits.com Technologies Inc. for the period ending April 4, 2019 and the years ended December 31, 2018 and 2017 2018 and the related financial statement schedules included in this prospectus have been audited by MNP LLP, an independent registered public accounting firm, as stated in their report appearing herein. Such financial statements and financial statement schedules have been so included in reliance upon the report of such firm given upon their authority as experts in accounting and auditing.

The transfer agent and registrar for the Common Shares will be Computershare Investor Services Inc. at its principal office in Vancouver, British Columbia.

### **MATERIAL CONTRACTS**

This prospectus includes a summary description of certain of our material agreements. The summary description discloses all attributes material to an investor in the Common Shares but is not complete and is qualified by reference to the terms of the material agreements, which will be filed with the Canadian securities regulatory authorities and available on the system for electronic document analysis and retrieval ("**SEDAR**"), at [www.sedar.com](http://www.sedar.com), under our profile. Investors are encouraged to read the full text of such material agreements.

The following are our only material contracts that will be in effect on Closing (other than certain agreements entered into in the ordinary course of business):

- (a) The Acquisition Agreement. See "The Business of KITS – Our History" for a description of the material terms of this agreement;
- (b) The BDC Loan Agreement. See "The Business of KITS – Our History" for a description of the material terms of this agreement; and
- (c) The Agency Agreement. See "Plan of Distribution" for a description of the material terms of this agreement.

Copies of the foregoing documents will be available following Closing on SEDAR at [www.sedar.com](http://www.sedar.com).

### **PURCHASERS' STATUTORY RIGHTS**

Securities legislation in certain of the provinces and territories of Canada provides purchasers with the right to withdraw from an agreement to purchase securities. This right may be exercised within two business days after receipt or deemed receipt of a prospectus and any amendment. In several of the provinces and territories, the securities legislation further provides a purchaser with remedies for rescission or, in some jurisdictions, revisions of the price or damages if the prospectus and any amendment contains a misrepresentation or is not delivered to the purchaser, provided that the remedies for rescission, revisions of the price or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province or territory. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province or territory for the particulars of these rights or consult with a legal adviser.

### **AGENT FOR SERVICE OF PROCESS**

The following directors of the Company, Ted Goldthorpe, Peter Lee and Anne Kavanagh, reside outside of Canada. Although each of them has appointed the Company at Suite 1020, 510 Seymour St, Vancouver, British Columbia, V6B 3J5, as their agent for service of process, purchasers are advised that it may not be possible for investors to enforce judgments obtained in Canada against any person or company that is incorporated, continued or otherwise organized under the laws of a foreign jurisdiction or resides outside of Canada, even if the party has appointed an agent for service of process.

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**KITS EYECARE LTD.**

**Independent Auditors' Report**

**Audited consolidated annual financial statements  
as at and for the year ended December 31, 2019,  
and for the period from October 19, 2018 (date of incorporation) to December 31, 2018**

See attached for both.

**KITS EYECARE LTD.**

Consolidated Annual Financial Statements

For the year ended December 31, 2019 and

for the period from October 19, 2018 (date of incorporation) to December 31, 2018

(in thousands of Canadian Dollars, except share and per share data)

## Independent Auditor's Report

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To the Shareholders of Kits Eyecare Ltd.:

### Opinion

We have audited the consolidated financial statements of Kits Eyecare Ltd. and its subsidiary (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2019 and December 31, 2018, and the consolidated statements of income, comprehensive loss, changes in equity, and cash flows for the year ended December 31, 2019 and for the period from October 19, 2018 (date of incorporation) to December 31, 2018, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2019 and December 31, 2018, and its consolidated financial performance and its consolidated cash flows for the year ended December 31, 2019 and for the period from October 19, 2018 to December 31, 2018 in accordance with International Financial Reporting Standards.

### Basis for Opinion

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audits of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Emphasis of Matter - Change in Accounting Framework

As discussed in Note 2 to the consolidated financial statements, the Company has changed its framework of accounting from Canadian Accounting Standards for Private Enterprises to International Financial Reporting Standards as issued by the International Accounting Standards Board at January 1, 2019. Our opinion is not modified in respect of this matter.

### Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

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

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

### Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient

and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audits and significant audit findings, including any significant deficiencies in internal control that we identify during our audits.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Giacomo Angelini.

Vancouver, British Columbia

November 26, 2020

*MNP* LLP

Chartered Professional Accountants

**KITS EYECARE LTD.****CONSOLIDATED STATEMENTS OF INCOME**

For the year ended December 31, 2019 and  
for the period from October 19, 2018 (date of incorporation) to December 31, 2018  
(in thousands of Canadian Dollars, except share and per share data)

	<u>2019</u>	<u>2018</u>
Revenue (Note 8)	\$ 36,897	\$ -
Cost of sales	26,085	-
Gross profit	10,812	-
Fulfillment (Note 9)	2,717	-
Marketing (Note 9)	3,168	-
General and administrative (Note 9)	1,581	-
Depreciation and amortization (Note 13, 14, 15)	1,327	-
Operating income	2,019	-
Finance costs - net (Note 17(d))	1,821	-
Other expenses (Note 9)	108	-
Loss before income taxes	90	-
Income taxes (Note 10)	37	-
Net income for the year	<u>\$ 53</u>	<u>\$ -</u>
Earnings per share (Note 24)		
Basic	<u>\$ 0.02</u>	<u>\$ -</u>
Diluted	<u>\$ 0.02</u>	<u>\$ -</u>

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

**KITS EYECARE LTD.****CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS**

For the year ended December 31, 2019 and  
for the period from October 19, 2018 (date of incorporation) to December 31, 2018  
(in thousands of Canadian Dollars, except share and per share data)

	<u>2019</u>	<u>2018</u>
Net income for the year	\$ 53	\$ -
Other comprehensive loss for the year:		
Items that may be reclassified to profit and income		
Currency translation differences	(1,302)	-
Total comprehensive loss for the year	<u>\$ (1,249)</u>	<u>\$ -</u>

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

**KITS EYECARE LTD.****CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

(in thousands of Canadian Dollars, except share and per share data)

	<b>December 31,</b>	
	<b>2019</b>	<b>2018</b>
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 3,398	\$ -
Accounts and other receivables (Note 11)	845	-
Inventory (Note 12)	2,837	-
Prepays, deposits and other assets	125	-
Total current assets	7,205	-
Property and equipment (Note 13)	334	-
Right-of-use asset (Note 14)	773	-
Deferred tax asset (Note 10)	5	-
Intangible assets (Note 15)	7,887	-
Goodwill (Note 15)	37,178	-
Total assets	<u>\$ 53,382</u>	<u>\$ -</u>
<b>Liabilities and shareholder's equity</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 5,049	\$ -
Tax payable (Note 10)	367	-
Deferred revenue (Note 8)	1,831	-
Loan (Note 17(a))	23,199	-
Current portion of lease liability (Note 14(b))	129	-
Total current liabilities	30,575	-
Redeemable preferred shares (Note 17(b))	10,276	-
Dividends payable (Note 17(c))	3,914	-
Deferred tax liability (Note 10)	1,866	-
Lease liability (Note 14(b))	546	-
Total liabilities	47,177	-
Shareholders' equity		
Share capital (Note 20)	7,324	-
Contributed surplus (Note 21)	130	-
Retained earnings	53	-
Accumulated other comprehensive loss	(1,302)	-
Total shareholders' equity	6,205	-
Total liabilities and shareholder's equity	<u>\$ 53,382</u>	<u>\$ -</u>

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

Approved on behalf of the Board:

\_\_\_\_\_  
Roger V. Hardy, Director

**KITS EYECARE LTD.**

**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**

**For the year ended December 31, 2019 and**

**for the period from October 19, 2018 (date of incorporation) to December 31, 2018**

(in thousands of Canadian Dollars, except share and per share data)

	Share Capital				Contributed surplus	Retained earnings	Accumulated other comprehensive loss	Total
	Common shares		Class B preferred shares					
	Shares	Amount	Shares	Amount				
Balance as at October 19 2018 (date of incorporation) and as at December 31, 2018	1,000,000	\$ -	-	\$ -	\$ -	\$ -	\$ -	\$ -
Shares returned to treasury	(1,000,000)	-	-	-	-	-	-	-
Issuance of common shares in connection with acquisition (Note 6)	4,000,000	3,824	-	-	-	-	-	3,824
Issuance of Preferred Shares B (Note 17(c))	-	-	7,000	3,500	-	-	-	3,500
Share-based payments (Note 21)	-	-	-	-	130	-	-	130
Net income and comprehensive	-	-	-	-	-	53	(1,302)	(1,249)
Balance as at December 31, 2019	<u>4,000,000</u>	<u>\$ 3,824</u>	<u>7,000</u>	<u>\$ 3,500</u>	<u>\$ 130</u>	<u>\$ 53</u>	<u>\$ (1,302)</u>	<u>\$ 6,205</u>

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

**KITS EYECARE LTD.****CONSOLIDATED STATEMENTS OF CASH FLOWS**

For the year ended December 31, 2019 and

for the period from October 19, 2018 (date of incorporation) to December 31, 2018

(in thousands of Canadian Dollars, except share and per share data)

	<u>2019</u>	<u>2018</u>
Operating activities		
Net income	\$ 53	\$ -
Items not affecting cash:		
Share-based payments	130	-
Depreciation of property and equipment	49	-
Amortization of intangible assets	1,275	-
Finance costs (Note 17(d))	1,831	-
Income tax expense (Note 10)	37	-
Foreign exchange gain	(6)	-
Change in non-cash operating working capital:		
Accounts receivable	(490)	-
Inventory	(1,306)	-
Prepaid expenses and other assets	4	-
Accounts payable and accrued liabilities	2,405	-
Deferred revenue	352	-
Income tax paid – net of refunds (Note 10)	(188)	-
<b>Cash provided by operating activities</b>	<b><u>4,146</u></b>	<b><u>-</u></b>
Financing activities		
Repayment of lease obligation (Note 14(b))	(153)	-
Net proceeds from loan (Note 17(a))	23,166	-
Repayment of loan (Note 17(a))	(1,395)	-
Proceeds from issuance of share capital (Note 17(c))	7,000	-
<b>Cash provided by financing activities</b>	<b><u>28,618</u></b>	<b><u>-</u></b>
Investing activities		
Purchase of property and equipment	(320)	-
Purchase of intangible assets	(673)	-
Net cash paid on acquisition of business (Note 6)	(28,275)	-
<b>Cash used in investing activities</b>	<b><u>(29,268)</u></b>	<b><u>-</u></b>
<b>Increase in cash and cash equivalents</b>	<b>3,496</b>	<b>-</b>
Foreign exchange effect on cash and cash equivalents	(98)	-
Cash and cash equivalents, beginning of period	-	-
<b>Cash and cash equivalents, end of period</b>	<b><u>\$ 3,398</u></b>	<b><u>\$ -</u></b>

Supplementary cash flow information (note 23)

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

**KITS EYECARE LTD.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**For the year ended December 31, 2019 and**

**for the period from October 19, 2018 (date of incorporation) to December 31, 2018**

(in thousands of Canadian Dollars, except share and per share data)

**1. Nature of operations**

Kits Eyecare Ltd. (the "Company") is an online retailer of eyecare, with sales primarily in the United States and Canada. The Company is a private company incorporated under the Business Corporations Act (British Columbia) on October 19, 2018 with its registered headquarters located at 1020 - 510 Seymour Street, Vancouver, BC, V6B 3J5.

On April 5, 2019, the Company completed the acquisition of all of the issued and outstanding shares of Kits.com Technologies Inc. (formerly LD Vision Group Inc.), an online retailer of contact lenses and eyewear, with sales primarily in the United States and Canada.

**2. Basis of preparation and statement of compliance**

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The consolidated financial statements have been prepared on a going concern basis, under the historical cost convention except for financial instruments that are measured at fair value.

For all periods up to and including the year ended December 31, 2019, the Company prepared its consolidated financial statements in accordance with Canadian Accounting Standards for Private Enterprises ("ASPE").

The Company adopted IFRS in accordance with IFRS 1, First-Time Adoption of International Financial Reporting Standards ("IFRS 1") as at January 1, 2019. Subject to certain transition elections provided for in IFRS 1 and disclosed in note 27, the Company has consistently applied the same accounting policies in the Company's opening IFRS balance sheet as at January 1, 2019 and throughout all periods presented, as if these policies had always been in effect. Note 27 discloses the impact of the transition to IFRS on the Company's financial position, financial performance, and cash flows, including the nature and effect of significant changes in accounting policies. The exemptions the Company has taken in applying IFRS for the first time are set out in note 27.

These annual consolidated financial statements are approved by and authorized for issuance by the Company's Board of Directors on November 26, 2020.

**3. Significant accounting policies:**

The significant accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all periods presented, other than with respect to the adoption of new accounting standards as disclosed in note 5.

**(a) Basis of presentation and consolidation**

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiary, Kits.com Technologies Inc. The financial statements of the subsidiary are prepared for the same reporting period as the parent company, using consistent accounting policies. All intercompany transactions, balances, and unrealized gains or losses have been eliminated.

These consolidated financial statements are prepared and presented in Canadian dollars, which is also the functional currency of the Company.

**(b) Foreign currency translation**

Revenues, expenses, and non-monetary assets and liabilities denominated in foreign currencies are recorded at the exchange rate prevailing at the transaction date. Monetary assets and liabilities denominated in foreign currencies are translated at exchange rates prevailing at the balance sheet date. Unrealized and realized translation gains and losses are reflected in the consolidated statements of income.

The assets and liabilities of the Company's wholly owned subsidiary, including goodwill and fair value adjustment arising on acquisition, whose functional currency is U.S. dollar, are translated into Canadian dollars at the exchange rates in effect at the balance sheet date. Revenues and expenses are translated at average exchange rates for the year. Differences arising from the exchange rate changes are included in other comprehensive income in the cumulative translation account.

Foreign exchange gains or losses arising from a monetary item receivable from or payable to a subsidiary, the settlement of which is neither planned nor likely to occur in the foreseeable future and which in substance is considered to form part of the net investment in the foreign operation, are recognized in other comprehensive income in the cumulative translation account and reclassified from equity to the consolidated statements of income upon disposal of the net investment.

**(c) Revenue recognition**

The Company's primary source of revenue is derived from selling optical products through online platforms.

The Company recognizes revenue when control of the goods is transferred to the customer, which generally occurs upon delivery, to the customer. When the Company receives payment before performance obligations are satisfied, these payments are initially recorded as a contract liability under deferred revenue and recognized as revenue in the period when goods are delivered and the control is transferred to the customer.

Revenue represents cash received from customers, net of sales taxes, rebates, and discounts and is presented net of an allowance for estimated returns, which is based on historical experience. Consideration of these factors results in an estimated allowance for sales returns. Shipping fees billed to customers are recorded as revenue, and shipping costs incurred to deliver the goods to the customer from the Company's warehouse are recognized within fulfillment expenses in the same period the related revenue is recognized.

#### **(d) Expenses**

The Company classified its operating expenses as:

Cost of goods sold consists of the cost of third-party brand and KITS brand products sold to customers, inventory freight, inventory shrinkage costs, and inventory valuation adjustments, offset by reductions for promotions and percentage or volume rebates offered by the Company's vendors.

Fulfillment costs primarily consist of those costs incurred in operating and staffing our fulfillment, optical lab, and customer service centers, third party fulfillment and shipping costs, and payment processing costs.

Marketing costs include advertising and payroll and related expenses for personnel engaged in marketing and selling activities.

Selling, general and administrative expenses consist of payroll and related expenses for employees involved in general corporate functions, costs associated with use by these functions of facilities and equipment, professional fees and other general corporate costs.

#### **(e) Business combinations**

Business acquisitions are accounted for using the acquisition method as of the acquisition date, which is the date when control is transferred to the Company. The consideration transferred in a business combination is measured at fair value, calculated as the sum of the acquisition date fair values of the assets transferred, liabilities incurred by the Company, and the equity interests issued by the Company in exchange for control of the acquiree. Transaction costs that the Company incurs in connection with a business combination are recognized in the consolidated statements of income as incurred.

Goodwill is measured as the excess of the sum of the fair value of the consideration transferred over the net of the amounts of the identifiable assets acquired and the liabilities assumed on the acquisition date.

To identify if an acquisition meets the definition of a business, the Company may apply the optional 'concentrate test' to aid the assessment of whether a transaction represents a business combination or is simply in substance the purchase of a single asset or group of similar assets.

Acquisitions that do not meet the definition of a business combination are accounted for as asset acquisitions. Consideration paid for an asset acquisition is allocated to the individual identifiable assets acquired and liabilities assumed based on their relative fair values. Asset acquisitions do not give rise to goodwill.

#### **(f) Earnings per share**

Basic earnings per share represents the income for the period, divided by the weighted average number of common shares outstanding during the period.

Diluted earnings per share represents the income for the period, divided by the weighted average number of common shares outstanding during the period plus the weighted average number of dilutive shares resulting from the exercise of stock options or conversion of preferred shares where the inclusion of these would not be anti-dilutive.

**(g) Cash and cash equivalents**

Cash and cash equivalents include cash on hand, deposits held on call with banks and other short-term highly liquid investments with original maturities of three months or less.

**(h) Trade receivables**

Trade receivables consist of credit card receivables and are initially recognized at fair value and subsequently measured at amortized cost using the effective interest method, less expected credit loss. Any allowance for expected credit loss is recorded against trade receivables and is based on historical experience.

**(i) Inventory**

Inventory consist of optical products held for sale and are stated at the lower of cost and net realizable value. Included in the cost of inventories are costs of purchase net of vendor allowances, plus other costs, such as transportation and duties, that are directly incurred to bring inventories to their present location and condition. Cost is determined using the weighted average cost method, based on individual products. Net realizable value is the estimated selling price in the normal course of business less the estimated costs necessary to make the sale. Storage costs, indirect administrative overhead and certain selling costs related to inventories are expensed in the period that these costs are incurred. Inventories are written down to net realizable value when the cost of inventories is estimated to be unrecoverable due to obsolescence, damage, or declining selling prices. When circumstances that previously caused inventories to be written down below cost no longer exist or when there is clear evidence of an increase in realizable value, the amount of the write-down previously recorded is reversed.

**(j) Property and equipment**

Property and equipment are recorded at cost, less accumulated depreciation. Costs includes all costs required to bring the item into its intended use. Depreciation methods and useful lives are reviewed annually and are adjusted prospectively, if appropriate.

Depreciation is determined at the following annual rates:

Office and computer equipment	20% to 30% declining-balance
Furniture and fixtures	20% declining-balance

**(k) Leases**

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Company assesses whether the contract

involves the use of an identified asset, whether the Company has the right to obtain substantially all of the economic benefits from use of the asset during the term of the arrangement and whether the Company has the right to direct the use of the asset.

At inception or on modification of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component relative to each component's stand-alone value. For the leases of property, the Company has elected to separate non-lease components and account for the lease and non-lease components separately.

As a lessee, the Company recognizes a right-of-use asset and a lease liability at the commencement date of a lease. The right-of-use asset is initially measured at cost, which is comprised of the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any decommissioning and restoration costs, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the date the leased asset is available for use to the later of the lease term and useful life of the asset. In addition, the right-of-use asset may be reduced due to impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the net present value of the lease payments discounted by either the interest rate implicit in the lease or if that rate cannot be readily determined, the Company's incremental borrowing rate. Lease payments included in the measurement of the lease liability are comprised of:

- fixed payments, including in-substance fixed payments; and
- the exercise price under a purchase option that the Company is reasonably certain to exercise.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, or if there is a change in our estimate or assessment of the expected amount payable under a residual value guarantee, purchase, extension or termination option. Variable lease payments not included in the initial measurement of the lease liability are charged directly to profit.

The Company has elected not to recognize right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets. The lease payments associated with these leases are charged directly to the consolidated statements of income on a straight-line basis over the lease term.

## **(I) Intangible assets**

Intangible assets acquired separately are measured on initial recognition at cost. The cost of an intangible asset acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets with finite lives are carried at cost less any accumulated amortization and any accumulated impairment losses.

Intangible assets with a finite life are amortized on a straight-line basis over their estimated useful economic lives as follows:

Domain names	indefinite life
Software	4 years
Customer relationships	5 years

The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life are considered to modify the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the consolidated statements of income.

The domain names are considered to have an indefinite life based on a history of revenue and cash flow performance, and the intent and ability of the Company to continue the use of the domain names for the foreseeable future. The domain names are tested at least annually for impairment, at the cash generating unit (“CGU”) level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is made on a prospective basis.

**(m) Goodwill**

Goodwill is the residual amount that results when the purchase price of an acquired business exceeds the sum of the amounts allocated to the identifiable assets acquired, less liabilities assumed, based on their fair values. Goodwill is allocated, at the date of the business acquisition, to the Company's reporting units that are expected to benefit from the synergies of the business combination. Goodwill is not amortized and is tested at least annually for impairment or whenever changes in circumstances indicate that the carrying amount of the reporting unit to which goodwill is assigned may exceed the recoverable amount of the reporting unit. When the carrying amount of a reporting unit, including goodwill, exceeds its recoverable amount, an impairment loss is charged to goodwill in an amount equal to the excess. An impairment loss is not subsequently reversed.

**(n) Impairment of long-lived assets**

The carrying amount of the Company's non-financial assets (other than contract assets) is reviewed at each reporting date to determine whether there is any indication of impairment. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. An impairment loss is recognized whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognized in the consolidated statements of income.

The recoverable amount of an asset is the greater of its fair value less cost to sell and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independently of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is only reversed if there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount,

however, not to an amount higher than the carrying amount that would have been determined had no impairment loss been recognized in previous years. Assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment.

**(o) Income taxes**

Income tax expense comprises current and deferred tax. It is recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

The Company has determined that interest and penalties related to income taxes, including uncertain tax treatments, do not meet the definition of income taxes, and has accounted for them under IAS 37 Provisions, Contingent Liabilities and Contingent Assets.

*Current tax*

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to the tax payable or receivable in respect of previous years. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any. It is measured using tax rates enacted or substantively enacted at the reporting date. Current tax also includes any tax arising from dividends.

Current tax assets and liabilities are offset only if certain criteria are met.

*Deferred tax*

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is not recognized for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries, associates, and joint arrangements to the extent that the Company is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising upon the initial recognition of goodwill.

Deferred tax assets are recognized for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Future taxable profits are determined based on the reversal of relevant taxable temporary differences. If the amount of taxable temporary differences is insufficient to recognize a deferred tax asset in full, then future taxable profits, adjusted for reversals of existing temporary differences, are considered, based on the business plans for individual subsidiaries in the Company. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized; such reductions are reversed when the probability of future taxable profits improves.

Unrecognized deferred tax assets are reassessed at each reporting date and recognized to the extent that it has become probable that future taxable profits will be available against which they can be used.

**(p) Share-based compensation and other share-based payments**

Share-based payments to employees are measured at the fair value of the instruments issued and amortized over the vesting periods. Share-based payments to non-employees are measured at the fair value of goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received. The corresponding amount is recorded to the share-based payment. The fair value of options is determined using the Black–Scholes option pricing model. The number of shares and options expected to vest are reviewed and adjusted at the end of each reporting period such that the amount recognized for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest.

Upon the settlement of equity settled awards, the balance of the contributed surplus related to those rights and awards is transferred to share capital.

**(q) Share capital**

Ordinary shares are classified as equity. Incremental costs directly attributable to the issuance of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

The Company's preferred shares that have the following features: redemption/retraction rights, non-discretionary dividends, and conversion rights to a variable number of common shares are classified as financial liabilities. On issuance, the fair value of these preferred shares is determined and are subsequently measured as fair value through profit and loss. The dividends on these preference shares are recognized in profit or loss as finance costs.

The Company's preferred shares that are non-redeemable with mandatory fixed dividends payments and fixed conversion right are separated into liability and equity components based on terms of the contract. On issuance, the fair value of the liability component is determined using the discounted cash flow method. This amount is recorded as a liability on an amortized cost basis until extinguished on conversion of the preference shares. The remainder of the proceeds are allocated to the conversion option that is recognized and included in equity.

**(r) Loans**

Loans are initially recognized at fair value, net of transaction costs incurred. Loans are subsequently measured at amortized cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognized in profit or loss over the period of the borrowings using the effective interest method.

Loans are derecognized from the consolidated statement of financial position when the obligation specified in the contract is discharged, cancelled, or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the

consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss as finance costs.

Loans are classified as current liabilities unless the group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

## **(s) Financial instruments**

### *Classification*

The Company classifies its financial instruments in the following categories: at fair value through profit and loss (“FVTPL”), at fair value through other comprehensive income (loss) (“FVTOCI”) or at amortized cost. The Company determines the classification of financial assets at initial recognition.

The classification of instruments is driven by the Company’s business model for managing the financial assets and their contractual cash flow characteristics.

Financial liabilities are measured at amortized cost, unless they are required to be measured at FVTPL (such as instruments held for trading or derivatives) or if the Company has opted to measure them at FVTPL.

### *Measurement*

- Financial assets and liabilities at amortized cost

Financial assets and liabilities at amortized cost are initially recognized at fair value plus or minus transaction costs, respectively, and subsequently carried at amortized cost less any impairment.

- Financial assets and liabilities at FVTPL

Financial assets and liabilities carried at FVTPL are initially recorded at fair value and transaction costs are expensed in the consolidated statements of income. Realized and unrealized gains and losses arising from changes in the fair value of the financial assets and liabilities held at FVTPL are included in the consolidated statements of income in the period in which they arise. Where management has opted to recognize a financial liability at FVTPL, any changes associated with the Company’s own credit risk will be recognized in other comprehensive income (loss).

### *Impairment of financial assets at amortized cost*

The Company recognizes a loss allowance for expected credit losses on financial assets that are measured at amortized cost.

At each reporting date, the Company measures the loss allowance for the financial asset at an amount equal to the lifetime expected credit losses if the credit risk on the financial asset has increased significantly since initial recognition. If at the reporting date, the financial asset has not increased significantly since initial recognition, the Company measures the loss allowance for the financial asset at an amount equal to the twelve month expected credit losses. The Company shall recognize in the consolidated statements of income as an impairment gain or loss, the amount of expected credit losses (or reversal) that is required to adjust the loss allowance at the reporting date to the amount that is required to be recognized.

#### *Derecognition*

The Company derecognizes financial assets only when the contractual rights to cash flows from the financial assets expire, or when it transfers the financial assets and substantially all of the associated risks and rewards of ownership to another entity. Gains and losses on derecognition are generally recognized in the consolidated statements of income and consolidated statements of comprehensive loss. However, gains and losses on derecognition of financial assets classified as FVTOCI remain within accumulated other comprehensive income (loss).

The Company derecognizes financial liabilities only when its obligations under the financial liabilities are discharged, cancelled, or expired. Generally, the difference between the carrying amount of the financial liability derecognized and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognized in the consolidated statements of income.

#### **4. Significant accounting judgments, estimates and assumptions**

The preparation of the consolidated financial statements requires management to make estimates and judgments in applying the Company's accounting policies that affect the reported amounts and disclosures made in the consolidated financial statements and accompanying notes.

Estimates and assumptions are used mainly in determining the measurement of balances recognized or disclosed in the consolidated financial statements and are based on a set of underlying data that may include management's historical experience, knowledge of current events and conditions and other factors that are believed to be reasonable under the circumstances.

Management continually evaluates the estimates and judgments used in the preparation of the financial statements. These estimates and judgments have been applied in a manner consistent with prior periods and there are no known trends, commitments, events or uncertainties that management believes will materially affect the methodology or assumptions utilized in making these estimates and judgments.

The following are the accounting policies subject to judgments and key sources of estimation uncertainty that the Company believes could have the most significant impact on the amounts recognized in the consolidated financial statements.

##### **Business combinations**

*Judgments Made in Relation to Accounting Policies Applied:* The Company applies judgement in the assessment of whether or not the net assets acquired constitute a business. In making this assessment, the Company considers the underlying economic substance of the acquisition and, also, where appropriate the application of the optional 'concentration test' to aid the assessment of whether a transaction represents a business combination or is simply in substance the purchase of a single of asset or group of similar assets.

*Key Sources of Estimation:* In a business combination, the identifiable assets acquired and liabilities assumed will be recognized at their fair values. The information necessary to measure the fair values as at the acquisition date of assets acquired and liabilities assumed requires management to make certain judgements and estimates about future events, including but not limited to estimates of

future earnings, future operating costs and capital expenditures, and discount rates. The excess of the purchase price over the fair values of identifiable assets acquired and liabilities assumed will be recognized as goodwill, if positive, and if negative, it is recognized in the consolidated statements of income.

### **Inventories**

*Key Sources of Estimation:* Inventories are carried at the lower of cost and net realizable value. In estimating net realizable value, the Company uses estimates related to fluctuations in inventory levels, planned production, customer behaviour, obsolescence, future selling prices, and costs necessary to sell the inventory.

### **Leases**

*Judgments Made in Relation to Accounting Policies Applied:* The Company exercises judgment when contracts are entered into that may give rise to a right-of-use asset that would be accounted for as a lease. Judgment is required in determining the appropriate lease term on a lease by lease basis. The Company considers all facts and circumstances that create an economic incentive to exercise a renewal option or to not exercise a termination option at inception and over the term of the lease, including investments in major leaseholds, operating performance, and changed circumstances. The periods covered by renewal or termination options are only included in the lease term if the Company is reasonably certain to exercise that option. Changes in the economic environment or changes in the retail industry may impact the assessment of the lease term and any changes in the estimate of lease terms may have a material impact on the Company's consolidated statements of financial position.

*Key Sources of Estimation:* The critical assumptions and estimates used in determining the present value of future lease payments require the Company to estimate the incremental borrowing rate specific to each leased asset or portfolio of leased assets. Management determines the incremental borrowing rate of each leased asset or portfolio of leased assets by incorporating the Company's creditworthiness, the security, term, and value of the underlying leased asset, and the economic environment in which the leased asset operates. The incremental borrowing rates are subject to change mainly due to macroeconomic changes in the environment.

### **Impairment of non-financial assets (goodwill, intangible assets, property, plant & equipment, and right-of-use assets)**

*Judgments Made in Relation to Accounting Policies Applied:* Management is required to use judgment in determining the grouping of assets to identify their CGUs for the purposes of testing non-financial assets for impairment. The Company has concluded that it has only 1 CGU and tests goodwill and these intangible assets for impairment on that basis.

*Key Sources of Estimation:* In determining the recoverable amount of the CGU, various estimates are employed. The Company determines value-in-use by using estimates including projected future revenues, margins, costs, and capital investment consistent with strategic plans presented to the Board of Directors and key management. Discount rates are consistent with external industry information reflecting the risk associated with the Company and its cash flows.

### **Fair value of financial instruments (redeemable Class A and Class C preferred shares)**

*Key Sources of Estimation:* The critical assumptions and estimates used in determining the fair value of the preferred shares are: probability of the occurrence of the redemption/retracting, probability

and timing of payment of dividends to the holders, the likelihood and timing of the holders exercising their conversion rights, and the discount rate used.

### **Share-based payments**

*Key Sources of Estimation:* Compensation expense for share-based compensation granted is measured at the fair value at the grant date using the Black-Scholes option pricing model. The critical assumptions used under the option valuation model at the grant date are: stock price valuation; exercise price; risk-free interest rate; expected time to exercise in years; expected dividend yield, and volatility.

## **5. Change in accounting policies - Standards issued but not yet effective**

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Company's financial statements are disclosed below. The Company intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

### **Amendments to IAS 1 and IAS 8: Definition of Material**

In October 2018, the IASB issued amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors to align the definition of 'material' across the standards and to clarify certain aspects of the definition, effective 1 January 2020. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general-purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.' The amendments to the definition of material is not expected to have a significant impact on the Company's consolidated financial statements.

## **6. Business combination**

On April 5, 2019, the Company acquired all of the outstanding shares of Kits.com Technologies Inc. ("Kits.com") for total purchase consideration of \$46.5 million. Kits.com provides contact lenses and eyewear online, with sales primarily in the United States and Canada. The Company acquired Kits.com to access its unique customer base of vision-corrected customers and its advanced and proprietary technology platform which is highly automated and efficient. Management determined that the assets and processes comprised a business and therefore accounted for the transaction as a business combination using the acquisition method of accounting.

The following table summarizes the fair value of the consideration transferred and the preliminary estimated fair values of the consideration and the major classes of assets acquired and liabilities assumed at the acquisition date. The fair value of the consideration was based on management's assessment of the features of the shares issued, including market value and the value of expected cash flows. Changes in estimates and assumptions used in the determination of the fair value of the common shares and Class A preferred shares could have a material impact on the amount of goodwill recorded.

Cash	\$ 32,676
Issuance of 10,000 Class A preferred shares	10,000
Issuance of 4,000,000 common shares	<u>3,824</u>
Purchase consideration:	<u><u>\$ 46,500</u></u>
Assets	
Cash and cash equivalents	\$ 4,401
Accounts receivable	361
Property and equipment	25
Prepaid expenses and other assets	205
Inventory	1,410
Domain names	240
Software	1,620
Customer relationships	<u>6,660</u>
Total assets	14,922
Liabilities	
Accounts payable and accrued liabilities	(2,666)
Deferred revenue	(1,479)
Tax payable	(319)
Deferred tax liabilities	<u>(2,192)</u>
Total liabilities	(6,656)
Fair value of net identifiable assets acquired	<u>8,266</u>
Goodwill	<u><u>\$ 38,234</u></u>

Identifiable intangible assets acquired consist mainly of customer relationships and software. The fair value of the customer relationships was \$6.6 million measured using the income approach and the multiple period excess earnings method. Under this approach, the fair value of customer relationships was valued using the present value of estimated net cash flows expected to be generated by the customer relationships, by excluding any cash flows related to contributory assets. The fair value of software was \$1.6 million, measured using the replacement cost method. Under this method, the software was valued based upon the costs the Company would incur to develop a similar asset. The Company considered the length of time over which the economic benefits of these assets is expected to be realized and estimated the useful life of such assets accordingly as at the acquisition date. Specifically, the estimated useful life of customer relationships and software was estimated to be 5 years and 4 years respectively and amortized on a straight-line basis. Fair value of inventories acquired was estimated using a market comparison technique. Under this approach, the fair value is determined based on the estimated selling price in the ordinary course of business less the estimated costs of completion and sale, and a reasonable profit margin based on the effort required to complete and sell the inventories.

The fair value of intangible assets acquired has been determined using valuation techniques that require estimation of future earnings, future net cash flows, and discount rates. Changes in estimates and assumptions used could have a material impact on the amount of goodwill recorded and the amount of depreciation and amortization expense recognized in earnings for depreciable assets in future periods.

The excess of the purchase consideration over the fair value of the identifiable assets acquired has been accounted for as goodwill. Goodwill was mainly attributable to the expected future growth potential of the business and acquired assembled workforce and is not deductible for tax purposes.

In the period from April 5, 2019 to December 31, 2019, Kits.com's operations contributed revenue of \$36,897 and income before income taxes of \$2,230. If the acquisition had occurred on January 1, 2019, management estimates that unaudited consolidated revenue would have been \$49,947, and unaudited consolidated net income would have been \$583. In determining these amounts, management has assumed that the fair value adjustments, determined provisionally, that arose on the date of acquisition would have been the same if the acquisition had occurred on January 1, 2019.

The Company incurred acquisition-related costs of \$267 on legal fees and due diligence costs. These costs have been included in administrative expenses.

## 7. Asset Acquisition

On April 5, 2019, the Company purchased the following assets from Rain City Labs Inc. and issued 300 Class C preferred shares as consideration. The purchase of assets has been accounted for as an acquisition of assets as the purchased assets did not meet the definition of a business under IFRS 3.

The assets acquired were recorded at the fair value of the consideration transferred.

Issuance of 3,000 Class C preferred shares	\$ 300
Purchase consideration:	<u>\$ 300</u>
Assets	
Inventory	\$ 121
Domain names	<u>179</u>
Total assets acquired	<u>\$ 300</u>

The fair value of the Class C preferred shares was determined using the expected cash outflows on the elements of Class C preferred shares (note 17(b)). Changes in estimates and assumptions used in the determination of the fair value of Class C preferred shares could have a material impact on the value of the domain names acquired.

## 8. Segment information and deferred revenue

The Company operates in a single reportable operating segment, being the sale of eye wear products to consumers.

### Geographic information

The Company determines the geographic location of revenue based on the location of its customers.

	<u>2019</u>	<u>2018</u>
United States	\$ 29,340	\$ -
Canada and rest of the world	7,557	-
Total	<u>\$ 36,897</u>	<u>\$ -</u>

All of the Company's non-current assets are located in Canada.

#### **Deferred revenue**

Deferred revenue consists of credit vouchers of \$1,288 (2018: \$nil), unfulfilled orders of \$445 and allowance of estimated returns of \$98 (2018: \$nil). Credit vouchers relate to vouchers that have been issued or sold to customers. Revenue from credit vouchers is recognized when the vouchers are redeemed, when the likelihood of redemption becomes remote, or when the vouchers expire.

### **9. Expenses**

#### **Fulfillment**

Fulfillment costs primarily consist of those costs incurred in operating and staffing the Company's fulfillment, optical lab, and customer service centers, third party fulfillment costs, and payment processing costs. During the year ended December 31, 2019, the Company incurred \$1,555 (2018: \$nil) of shipping expenses, \$355 (2018: \$nil) of wages, salaries, and benefits, payment processing fees of \$802 (2018: \$nil) and other expenses of \$5 (2018: \$nil).

#### **Marketing**

Marketing costs include advertising and payroll and related expenses for personnel engaged in marketing and selling activities. During the year ended December 31, 2019, marketing expense comprises of \$3,145 (2018: \$nil) of advertising and promotion and \$23 (2018: \$nil) of wages, salaries and benefits.

#### **General and administrative**

General and administrative expenses consist of payroll and related expenses for employees involved in general corporate functions, costs associated with use by these functions of facilities and equipment, professional fees, technology expenses, and other general corporate costs. During the year ended December 31, 2019, general and administrative expenses consist of one-time fee related to the acquisition of Kits.com of \$267 (2018: \$nil), professional fees of \$59 (2018: \$nil), rental expenses of \$157 (2018: \$nil), share-based payment of \$130 (2018: \$nil), technology expense of \$108 (2018: \$nil), wages, salaries and benefits of \$851 (2018: \$nil), and other expense of \$9 (2018: \$nil).

#### **Other expense**

The Company had accrued \$108 of estimated sales taxes payable relating to sales recognized from April 4, 2019 to December 31, 2019.

### **10. Income taxes**

#### **Income tax expense**

For the year ended December 31, 2019, the Company recorded an income tax expense of \$37 (2018: \$nil) which comprise of current income tax expense of \$312 (2018: \$nil) and a deferred tax recovery

of \$275 (2018: \$nil). Included in the current income tax expense is a current tax expense of \$438 (2018: \$nil) offset by a recovery for current tax of prior periods of \$126 (2018: \$nil).

#### Reconciliation of effective tax rate

	<u>2019</u>	<u>2018</u>
Net (loss)/income before income taxes	\$ 90	\$ -
Combined Canadian statutory income tax rate	27%	27%
Income tax expense computed at statutory income tax rate	24	-
Tax effect of:		
Non-deductible expenses	188	-
Benefits from small business deduction	(59)	-
Effect of foreign exchange on income taxes	(45)	-
Additional taxes that are payable in foreign jurisdictions	55	-
Adjustments for current tax of prior periods	(126)	-
Income tax expense / (recovery)	<u>\$ 37</u>	<u>\$ -</u>

#### Deferred income tax assets and liabilities

Deferred tax liabilities on the consolidated statements of financial position consist of deferred income tax assets of \$5 (2018: \$nil) and a deferred income tax liability of \$1,866 (2018: \$nil). The following temporary differences and tax losses give rise to deferred income tax assets and liabilities as at:

	<u>2019</u>	<u>2018</u>
Property, plant and equipment	\$ (83)	\$ -
Intangible assets	(1,903)	-
Deferred revenue	116	-
Other	9	-
Net deferred income tax asset (liability)	<u>\$ (1,861)</u>	<u>\$ -</u>

The Company intends to indefinitely reinvest the undistributed earnings of its subsidiary; accordingly, the Company has not recognized tax on these earnings.

#### 11. Accounts and other receivables

Accounts receivable consist of credit card receivables and rebates from suppliers of \$845 (2018: \$nil).

#### 12. Inventory

As at December 31, 2019, the inventory mainly comprised of \$2,136 (2018: \$nil) of contact lens, \$666 (2018: \$nil) of frames, prescription lens of \$15 (2018: \$nil) and other miscellaneous inventory of \$20 (2018: \$nil).

For the year ended December 31, 2019, the total amount of inventory recognized as an expense was \$6,488 (2018: \$nil) and no provision of inventory obsolescence was recognized (2018: \$nil).

### 13. Property and Equipment

	<u>Office and computer equipment</u>	<u>Furniture and fixtures</u>	<u>Total</u>
<b>Year ended 31 December 2019</b>			
Opening net book value	\$ -	\$ -	\$ -
Acquired through business combination (note 6)	12	13	25
Additions	291	30	321
Depreciation	(13)	(5)	(18)
Exchange differences	3	3	6
Net Book value at 31 December 2019	<u>\$ 293</u>	<u>\$ 41</u>	<u>\$ 334</u>
At 31 December 2019			
Cost	\$ 350	\$ 69	\$ 419
Accumulated depreciation	(57)	(28)	(85)
Net book value	<u>\$ 293</u>	<u>\$ 41</u>	<u>\$ 334</u>

### 14. Leases

The Company leases equipment and warehouse.

#### (a) Right-of-use assets

The following table presents changes in the cost and the accumulated depreciation of the Company's right-of-use assets.

	<u>Equipment</u>	<u>Warehouse building</u>	<u>Total</u>
<b>Year ended 31 December 2019</b>			
Opening net book value	\$ -	\$ -	\$ -
Additions	630	188	818
Depreciation	(16)	(18)	(34)
Exchange differences	(10)	(1)	(11)
Net Book value at 31 December 2019	<u>\$ 604</u>	<u>\$ 169</u>	<u>\$ 773</u>
At 31 December 2019			
Cost	\$ 620	\$ 184	\$ 804
Accumulated depreciation	(16)	(15)	(31)
Net book value	<u>\$ 604</u>	<u>\$ 169</u>	<u>\$ 773</u>

**(b) Lease liabilities**

The following table presents the changes in the Company's lease liabilities:

	<u>Equipment</u>	<u>Warehouse building</u>	<u>Total</u>
<b>Year ended 31 December 2019</b>			
Opening balance	\$ -	\$ -	\$ -
Additions	630	188	818
Principal payments	(136)	(17)	(153)
Interest expense (note 17 (d))	11	2	13
Exchange differences	6	3	9
Impact of translation	(9)	(3)	(12)
As at 31 December 2019	<u>\$ 502</u>	<u>\$ 173</u>	<u>\$ 675</u>
At 31 December 2019			
Current	\$ 72	\$ 57	\$ 129
Non-current	<u>430</u>	<u>116</u>	<u>546</u>
Total lease liabilities	<u>\$ 502</u>	<u>\$ 173</u>	<u>\$ 675</u>

Short-term leases are not included in the calculation of lease liabilities. For the year ended December 31, 2019, \$157 (2018: \$nil) of short-term lease expenses were recognized in general and administrative expenses.

The future undiscounted minimum lease commitments for the Company's leases for its premises, excluding other occupancy charges and variable lease payments, are as follows:

Less than 1 year	\$ 180
Between 1 and 5 years	567
More than 5 years	<u>78</u>
	<u>\$ 825</u>

## 15. Intangible assets and goodwill

	<u>Goodwill</u>	<u>Domain names</u>	<u>Proprietary Software</u>	<u>Customer relationship</u>	<u>Total</u>
<b>2019</b>					
Opening net book value	\$ -	\$ -	\$ -	\$ -	\$ -
Acquired through business combination (note 6)	38,234	240	1,620	6,660	46,754
Acquired through asset acquisition (note 7)	-	179	-	-	179
Additions	-	673	-	-	673
Amortization	-	-	(297)	(978)	(1,275)
Exchange differences	(1,056)	(7)	(39)	(164)	(1,266)
Net Book value at 31 December 2019	<u>\$ 37,178</u>	<u>\$ 1,085</u>	<u>\$ 1,284</u>	<u>\$ 5,518</u>	<u>\$ 45,065</u>
At 31 December 2019					
Cost	\$ 37,178	\$ 1,085	\$ 1,575	\$ 6,476	\$ 46,314
Accumulated amortization	-	-	(291)	(958)	(1,249)
Net book value	<u>\$ 37,178</u>	<u>\$ 1,085</u>	<u>\$ 1,284</u>	<u>\$ 5,518</u>	<u>\$ 45,065</u>

The Company completed its annual impairment test in the year ended December 31, 2019 for goodwill and indefinite life intangible assets and concluded that there was no impairment.

The Company only has one cash generating unit (“CGU”) and the recoverable amount of the CGU was based on its value in use, calculated using discounted cash flows over six years with a terminal value generated from continuing use of the CGU. Cash flows were projected based on expected operating results with average growth rate of 10.5% based on past performance and management’s expectations of market development. Cash flow projections were discounted using the Company’s weighted average cost of capital, determined to be 19.7% based on a risk-free rate, an equity risk premium adjusted for the Company being privately-held, an unsystematic risk premium, country risk premium, company-specific risk premium, a cost of debt based on comparable corporate bond yields and the capital structure of the Company. Reasonable changes in key assumptions would not cause the carrying amount to exceed the estimated recoverable amount.

The goodwill impairment test resulted in excess of recoverable value over carrying value of at least 34%. Because the value in use amount exceeds the asset’s carrying amount, the asset is not impaired and the fair value less costs of disposition has not been calculated.

## 16. Accounts payable and accrued liabilities

As at December 31, 2019, the Company has recorded accounts payable of \$4,860 (2018: \$nil) and accrued liabilities and other payables of \$189 (2018: \$nil).

## 17. Financial liabilities

### (a) Loan

The Company entered into a secured loan agreement for \$23.4 million with BDC Capital Inc. ("BDC") on March 26, 2019, with a repayment date of March 15, 2026. This loan bears interest at BDC floating rate minus 1%, plus a variance of 2.95% per annum and is payable on a monthly basis. As at December 31, 2019, BDC floating rate was 6.05%. This loan is subordinated to the Company's credit card liabilities and senior to any other loans and is secured by the Company's assets.

The Company is subject to various covenants under the loan including a requirement to maintain certain financial ratios. As at December 31, 2019, the Company failed to meet certain financial ratio requirements and has classified the loan as current. Subsequent to the year-end, the Company obtained waivers from BDC and the financial ratios and payment terms were amended (note 26). The loan is in good standing and the indebtedness is no longer considered a current liability.

As at December 31, 2019, the carrying amount of the loan is \$23,199 (2018: \$nil) which comprises of unamortized portion of deferred transaction costs of \$201 (2018: \$nil)

For the year ended December 31, 2019, the Company recognized \$1,428 (2018: \$nil) of interest expense in finance costs.

### (b) Redeemable Class A and Class C preferred shares

On April 5, 2019, the Company issued 10,000 Class A (note 6) and 300 Class C preferred shares (note 7) with a par value of \$1,000 for each preferred share. These preferred shares are redeemable and retractable at \$1,000 per share, non-voting with a cumulative dividend at 8%. The holders of the preferred shares may convert the issued par value of the preferred shares into:

- Common shares of the Company at a price equal to 80% of the issuance price of future issuances of common shares at the time of such issuance; or
- Debt due at the request of the holder or at the option of the Company, with written consent from BDC prior to the long-term debt maturity (note 17a).

Since these shares are redeemable and the Company is obliged to pay annual dividends to the holders, these shares are recognized as financial liabilities ("host instrument"). As the holders may convert these shares to common share of the Company, the conversion right is an embedded derivative that is closely related to the host instrument since the conversion right would modify the timing of the cash flows of the redemption and dividends payment. These shares are measured at fair value through profit/loss.

The fair value of the Class A and C preferred shares was determined using a discounted cash flow method applied to the expected timing and cash outflows associated with the elements of Class A and C preferred shares: (1) redemption/retraction feature, (2) dividend payable, and (3) conversion right. See note 18 for details.

As at December 31, 2019, the fair value of the Class A and C preferred shares was \$10,276 (2018: \$nil). For the year ended December 31, 2019, the Company recognized a decrease of \$24 (2018: \$nil) in the fair value of the liability in finance costs.

**(c) Non-redeemable Class B preferred shares**

On April 5, 2019, the Company issued 7,000 Class B preferred shares with a par value of \$1,000 for each preferred share in exchange for \$7,000,000. These preferred shares are non-redeemable, non-retractable, each convertible into 857 1/7 common shares and entitled to 857 1/7 votes, and are entitled to a cumulative dividend of 8%. The Class B preferred shares are presented on the statement of financial position as follows:

	<u>2019</u>
Proceeds received	\$ 7,000
Other equity securities: value of conversion rights	<u>(3,500)</u>
Financial liability: dividends payable	3,500
Interest expense recognized in finance costs	<u>414</u>
Non-current liability	<u><u>\$ 3,914</u></u>

Since the Company is obliged to pay annual dividends to the holder, dividends payable are recognized as liabilities. The initial fair value of the liability portion of the Class B preferred shares was determined by management using a discounted cash flow method. The liability is subsequently recognized on an amortized cost basis until extinguishment. The remainder of the proceeds are allocated to the conversion option and recognized in shareholders' equity and not subsequently remeasured.

**(d) Finance costs**

	<u>2019</u>	<u>2018</u>
Interest income net of bank charges	\$ (10)	\$ -
Interest expense on loan (note 17(a))	1,428	-
Fair value gains (note 17(b))	(24)	-
Interest expense on non-redeemable Class B preferred shares (17(c))	414	-
Interest expense on lease liability (note 14(b))	<u>13</u>	<u>-</u>
Total finance costs	<u><u>\$ 1,821</u></u>	<u><u>\$ -</u></u>

**18. Financial instruments and fair values**

The Company characterizes fair value measurements using a hierarchy that prioritizes inputs depending on the degree to which they are observable. The three levels of the fair value hierarchy are as follows:

- Level 1: fair value measurements are quoted prices (unadjusted) in active markets for identical assets or liabilities;

- Level 2: fair value measurements are those derived from inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3: fair value measurements are those derived from valuation techniques that include significant inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The carrying value of cash and cash equivalents, account receivables, accounts payable, and accrued liabilities approximate their fair value because of the short-term nature of these financial instruments. These financial instruments are classified as financial assets and liabilities at amortized cost.

The following table shows the carrying amount and the fair values of financial liabilities, including their levels in the fair value hierarchy. There were no financial liabilities as at December 31, 2018.

<b>December 31, 2019</b>	<b>Carrying value</b>	<b>Fair value measurement Level 2</b>	<b>Fair value measurement Level 3</b>
Financial liabilities			
Redeemable Class A and Class C preferred shares (note 17(b))	\$ 10,276	\$ -	\$ 10,276
Loan (note 17(a))	23,199	23,400	-
Non-redeemable Class B preferred shares (dividends payable component) (note 17(c))	3,914	-	3,914
Total	<u>\$ 37,389</u>	<u>\$ 23,400</u>	<u>\$ 14,190</u>

During the year ended December 31, 2019 there have been no transfers of amounts between Level 1, Level 2, and Level 3 of the fair value hierarchy.

The classification of the financial instruments as well as their carrying values as at December 31, 2019 is shown in the table below. As at December 31, 2018, the carrying value of cash and cash equivalents was \$100 and is a financial asset carried at amortized cost.

<b>December 31, 2019</b>	<b>Amortized cost (Financial asset)</b>	<b>Amortized cost (Financial liabilities)</b>	<b>FVTPL</b>	<b>Total</b>
<b>Financial assets</b>				
Cash and cash equivalents	\$ 3,398	\$ -	\$ -	\$ 3,398
Accounts and other receivables	845	-	-	845
Total financial assets	<u>\$ 4,243</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,243</u>
<b>Financial liabilities</b>				
Account payable and accrued liabilities	\$ -	\$ 5,049	\$ -	\$ 5,049
Loan	-	23,199	-	23,199
Redeemable Class A and Class C preferred shares	-	-	10,276	10,276
Non-redeemable Class B preferred shares (dividends payable component)	-	3,914	-	3,914
Total financial liabilities	<u>\$ -</u>	<u>\$ 32,162</u>	<u>\$ 10,276</u>	<u>\$ 42,438</u>

### Valuation techniques and significant unobservable inputs

The following tables show the valuation techniques used in measuring Level 3 fair values for financial instruments in the consolidated statements of financial position, as well as the significant unobservable inputs used.

	<b>Valuation technique(s) and key input(s)</b>	<b>Relationship of unobservable inputs to fair value</b>
<b>Financial instruments measured at fair value</b>		
Redeemable Class A and Class C preferred shares	Discounted cash flows:  The valuation model considers the present value of expected value of the redemption feature, dividend payable and the conversion right, discounted using a risk-adjusted discount rate with an expected probability of occurrence	The estimated fair value would increase (decrease) if:  - The average risk adjusted discount rate were lower (higher)  - The probability of redemption decreased (increased) / probability of exercising the conversion right increased (decreased)
<b>Financial instruments not measured at fair value</b>		
Other financial liabilities:	Discounted cash flows:	N/A
- Loan		
- Non-redeemable Class B preferred shares: liability component	The valuation model considers the present value of expected payments, discounted using a risk-adjusted discount rate at initial recognition	

## **19. Financial risk management objectives and policies**

The Company's primary risk management objective is to protect the Company's assets and cash flow, in order to increase the Company's enterprise value. The Company is exposed to capital management risk, market risk, credit risk, and liquidity risk. The Company's senior management and Board of Directors oversee the management of these risks. The Board of Directors reviews and approves policies for managing each of these risks which are summarized below.

### **(a) Capital management**

The Company manages its capital, which consists of equity (Preferred Shares B and common shares), long-term debt and Preferred Shares A & C, with the objectives of safeguarding sufficient net working capital over the annual operating cycle and providing sufficient financial resources to grow operations to meet long-term consumer demand. The Company prepares and updates its annual operational results based on the Company's short and long term objectives and monitors actual operating results compared to the forecast to ensure that there is sufficient capital on hand to grow its operations. The Board of Directors of the Company monitors the Company's capital management on a regular basis. The Company will continually assess the adequacy of the Company's capital structure and capacity and make adjustments within the context of the Company's strategy, economic conditions, and risk characteristics of the business.

### **(b) Market risk**

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market prices comprise interest rate risk and foreign currency risk.

#### **Interest rate risk**

The Company is exposed to changes in interest rates on our cash and cash equivalents, loans. The Company's debt has a variable interest rate based on BDC's floating base rate plus a margin. As a result, the Company is exposed to interest rate risk due to fluctuations in the BDC's floating base rate.

The principal amount outstanding under the loan was \$23.4 million as at December 31, 2019 which currently bears interest at 8%. A 1.00% increase in the floating interest rate would have increased annual interest payable by \$82 and interest expense by \$156.

#### **Currency risk**

The Company's and its subsidiary's functional currencies are the Canadian Dollar ("CAD") and the United States Dollar ("USD") respectively. The Company is exposed to fluctuations in the U.S. Dollar ("USD") and the Canadian Dollar ("CAD") relative to these functional currencies. The Company has not entered into any agreements or purchased any instruments to hedge possible currency risks at this time.

The Company is exposed to the following currency risk:

	<u>USD</u>	<u>CAD</u>
Cash and cash equivalents	\$ 783	\$ 1,232
Accounts Receivable	-	147
Accounts payable and accrued liabilities	-	(79)
Total as at December 31 2019	<u>\$ 783</u>	<u>\$ 1,300</u>

The Company was not exposed to any currency risk for the year ended December 31, 2018.

A 10% strengthening in the Canadian dollar against the U.S. dollar on net monetary accounts would, with all other variables being constant, have an approximately unfavorable impact of \$107 on net income.

### (c) Credit risk

Credit risk refers to the possibility that the Company can suffer financial losses due to the failure of the Company's counterparties to meet their payment obligations. The Company is exposed to minimal credit risk. The Company does not extend credit to customers, but do have some receivables exposure with respect to payment processors transferring customer funds to the Company and to rebates receivable from the Company's vendors. In order to reduce this risk, the Company uses industry leading payment processors, including Chase Paymentech, American Express, and Paypal. The Company deposits its cash and cash equivalents with major financial institutions that have been assigned high credit ratings by internationally recognized credit rating agencies. As such, exposure to customer credit risk is not material.

### (d) Liquidity risk

Liquidity risk is the risk that we cannot meet a demand for cash or fund our obligations as they come due. The Company manage liquidity risk by continuously monitoring actual and projected cash flows, taking into account the seasonality of the Company's revenue, income and working capital needs. The following table summarizes the amount of contractual undiscounted future cash flow requirements as at December 31, 2019:

<b>Contractual obligations</b>	<u>Carrying amount</u>	<u>Contractual cash flows</u>	<u>Less than 1 year</u>	<u>1-3 years</u>	<u>4-5 years</u>	<u>After 5 years</u>
Accounts payable and accrued liabilities	\$ 5,049	\$ 4,860	\$ 4,860	\$ -	\$ -	\$ -
Loan - Principal amount	23,199	23,400	2,500	9,000	6,000	5,900
Loan - Interest	-	7,320	1,797	2,884	1,926	713
	<u>\$ 28,248</u>	<u>\$ 35,580</u>	<u>\$ 9,157</u>	<u>\$ 11,884</u>	<u>\$ 7,926</u>	<u>\$ 6,613</u>

The Company is subject to various covenants under its loan including a requirement to maintain certain financial ratios. (note 17 (a)). As at December 31, 2019, the Company was in breach of its covenant requirements. Subsequent to the year-end, the Company obtained a waiver from BDC and

the financial ratios and payment terms were amended (note 26). Any future breach of covenant(s) may require the Company to repay the loan earlier than indicated in the table above.

## 20. Share capital

### (a) Authorized

- Unlimited Class A preferred shares, redeemable and retractable at \$1,000 per share, non-voting with cumulative dividend at 8%
- Unlimited Class B preferred shares, non-redeemable, non-retractable, each convertible into 857 <sup>1</sup>/<sub>7</sub> common shares and entitled to 857 <sup>1</sup>/<sub>7</sub> votes, cumulative dividend at 8%
- Unlimited Class C preferred shares, redeemable and retractable at \$1,000 per share, non-voting with cumulative dividend at 8%
- Unlimited common shares, each entitled to 1 vote

### (b) Issued and outstanding preferred shares and common shares

During the year, the Company issued 7,000 Class B preference shares for \$7,000,000 of cash consideration. Refer to note 17(b) for the accounting of Class A and C preferred shares and note 17(c) for Class B preferred shares.

## 21. Share-based compensation

The Company has a stock option plan (the "Plan") to encourage ownership of the Company's common shares by its officers, directors, employees and certain non-employees. The Company can grant options for up to 10% of fully diluted common shares. Stock options have a maximum term of up to seven years. The options vesting period ranges between three months and three years.

During the year, the Company granted the following options:

	<b>Number</b>	<b>Weighted average exercise price</b>
Balance: 31 December 2018	-	\$ -
Granted: October 1, 2019	887,333	\$ 6.00
Balance: December 31, 2019	<u>887,333</u>	<u>\$ 6.00</u>

Of the options granted, 850,000 options vest over a 2.5 year period from the date of grant and remaining 37,333 options vest one year from the date of grant. The total share-based payment expense recorded during the year ended December 31, 2019 from the vesting of these options was \$ 130 (2018: \$nil) and was classified within the consolidated financial statements as general and administration expense.

The following table summarizes information about the share options as at December 31, 2019:

	<u>Exercise price per share of options outstanding</u>	<u>Number of options outstanding</u>	<u>Weight average remaining life (years)</u>	<u>Weighted average exercise price options exercisable</u>	<u>Number of options exercisable</u>	<u>Expiry date</u>
Issued	\$ 6.00	887,333	6.75	\$ -	-	September 30, 2026
Total	\$ 6.00	887,333	6.75	\$ -	-	

The Black-Scholes option pricing model was used to estimate the fair value of the share options using the following assumptions on the grant date of the options:

<u>Issue date</u>	<u>Expected Option life (years)</u>	<u>Risk free interest rate</u>	<u>Dividend yield</u>	<u>Expected volatility</u>	<u>Weighted average fair value</u>
October 1, 2019	7.00	1.46%	0%	100%	\$ 0.57

## 22. Related party transactions

During the year ended December 31, 2019, the Company has paid rent of \$32 (2018: \$nil) to 18609694 Ontario Inc., a company owned by the minority shareholders of the Company. During the year ended December 31, 2019, the Company has paid rent of \$90 (2018: \$nil) to 0999849 BC Inc., a company under common control of the majority shareholder of the Company. These amounts have been included in other general and administrative expense and are part of the Company's ordinary course of business. The contract terms are based on market rates for these types of services and amounts are payable on a monthly basis for the duration of the contract.

There were no related party transactions during the year ended December 31, 2018.

### *Key management compensation*

Key management consists of the Board of Directors, the Chief Executive Officer, and the executives who report directly to the Chief Executive Officer.

	<u>2019</u>	<u>2018</u>
Wages and short-term employee benefits	\$ 508	\$ -
Share-based compensation	125	-
Total compensation expense	<u>\$ 633</u>	<u>\$ -</u>

## 23. Supplemental cash flow

For the year ended December 31, 2019, the Company paid interest of \$1,395 (2018: \$nil) and its non-cash investing and financing activities consist of issuing common shares and redeemable Class A preferred shares as consideration for business combination of \$13,824 and issuing redeemable Class C preferred shares as consideration for asset acquisition of \$300. There were no non-cash investing and financing activities for the year ended December 31, 2018.

## 24. Earnings per share

	<u>2019</u>	<u>2018</u>
Basic	\$ 0.02	\$ -
Diluted	\$ 0.02	\$ -
Weighted average number of ordinary shares used as the denominator in calculating basic and diluted earnings per share	3,219,178	1,000,000

Common share equivalents that could potentially dilute net income per basic share in the future, but were not included in the computation of diluted earnings per share because the impact would have been anti-dilutive comprised of all issued stock options (note 21) and all preferred shares of the Company (note 20(b)).

## 25. Contingencies

The Company is, from time to time, involved in various claims, legal proceedings and complaints arising in the ordinary course of business. It does not believe that adverse decisions in any pending or threatened proceedings, or any amount it may be required to pay by reason thereof, will have a material adverse effect on the financial condition or future results of operations of the Company.

## 26. Subsequent events

### **Rain City Labs Inc. distribution of holdings**

Rain City Labs Inc., holder of the Class B preferred shares and Class C preferred shares of the Company, made a capital distribution of all such Class B preferred shares and Class C preferred shares to the direct and indirect beneficial owners of Rain City Labs Inc. effective January 1, 2020.

### **Stock options grants**

On July 30, 2020, the board of directors approved an option grant by the Company of 84,867 options at average strike of \$13.07 and expire seven years after initial grant date, subject to a vesting schedule and the terms of the Company's option plan.

### **Amendments to loan payable to BDC**

On March 13, 2020, BDC waived and amended various of the Company's debt covenants and ratios. In addition, the repayment schedule of the loan was revised to reflect a \$500 pre-payment made in March 2020; the balloon payment was reduced by the pre-payment amount to \$5,150 and upon maturity or an initial public offering of the Company, BDC is entitled to receive a one-time bonus payment of 0.3% of annual revenue. On September 30, 2020, BDC waived and amended various of the Company's debt covenants and ratios and the one-time bonus payment, due upon maturity or an initial public offering of the Company, was revised to 0.45% of annual revenue from 0.3% and reset the prepayment schedule to start on October 1, 2020. The loan is in good standing and the indebtedness is no longer considered a current liability.

### **Impacts of COVID-19 Pandemic**

Subsequent to April 4, 2019, the COVID-19 disease was first identified in December 2019 and the outbreak was declared a pandemic on March 11, 2020 by the World Health Organization. As a result of the pandemic, the Company observed a shift in shopping behavior from traditional brick-and-

mortar stores to online shopping, and the Company had benefited from this change in customer habits with an increase in both orders and the onboarding rate for of new customers.

To address the healthy spacing requirements, the Company split its warehouse into two shifts and opened an additional facility. In addition, the Company had some temporary and permanent loss of staff due to quarantines and other COVID-19 related reasons. These factors are resulting in higher operating expenses. These impacts and other potential COVID-related factors could lead to continued changes in revenue and/or profitability that the Company cannot predict.

## 27. Adoption of IFRS 1

The effect of the Company's transition to IFRS, described in note 2, is summarized in this note as follows:

### (a) Transition elections

IFRS 1, which governs the first-time adoption of IFRS, generally requires accounting policies to be applied retrospectively to determine the opening balance sheet on the transition date of January 1, 2019, but allows certain exemptions on the transition to IFRS. Since there were no material transactions that had occurred prior to the transition date, the Company has not chosen to apply for any elections.

### (b) Reconciliation of shareholder's Equity as at 1 January 2019 (date of transition to IFRS) and 31 December 2019

	Note	December 31 <u>2019</u>	January 31 <u>2019</u>
Shareholders' equity, as previously reported under ASPE		\$ 15,319	\$ -
Recognition of dividend payable component of non-redeemable Class B preferred shares as financial liability	(i)	(3,914)	-
Recognition of redeemable Class A and C preferred shares as financial liability	(ii)	(6,688)	-
Reversal of dividend payable to Class A, B and C preferred shareholders	(iii)	1,455	-
Capitalization of transaction costs within carrying value of loan in accordance with IFRS 9	(iv)	201	-
Adoption of IFRS 16 - Leases	(v)	(12)	-
Adoption of IFRS 15 - Revenue from contracts with customers	(v)	(330)	-
Recognition of income tax balances	(vi)	388	-
Recognition of sales taxes payable	(vii)	(108)	-
Adjustment made to acquisition carrying values	(viii)	1,532	-
Translation of foreign subsidiary	(ix)	<u>(1,638)</u>	-
Shareholders' equity, as reported under IFRS		<u>\$ 6,205</u>	<u>\$ -</u>

(i) Recognition of dividend payable component of non-redeemable Class B preferred shares as financial liability

The non-redeemable Class B preferred shares were issued for a cash consideration of \$7.0 million. The key components of the non-redeemable Class B preferred shares comprise of a fixed 8% cumulative cash dividend and a conversion right to convert the preferred shares to common shares of the Company based on a fixed formula.

Under ASPE, the Company had recorded the issuance of Class B preferred shares as equity.

Under IFRS, the Company must recognize a compound financial instrument that has a financial liability related to the dividend payments and an equity component related to the fix conversion right:

- the dividend payable to the holders of Class B preferred shares must be recognized as a separate financial liability as the fixed 8% cumulative cash dividends are non-discretionary and the Company has the obligation to pay the holders the dividends and
- fixed conversion right which meets the fixed-for-fixed conversion as the preference shares as a whole is a non-derivative instrument that includes a contractual obligation for the Company to deliver a fixed number of equity instruments.

The Company determined the fair value of the dividend payments to be \$3,500 and has recorded the balance on the statement of financial position and allocated the residual amount of the cash consideration to equity. Interest expense, which is included in the consolidated statements of income under finance costs for the year ended December 31, 2019 was \$414.

(ii) Recognition of redeemable Class A and C preferred shares as financial liability

The redeemable Class A and C preferred shares were issued in consideration for the acquisition of a business (note 6) and assets (note 7) respectively. The key terms of these shares are the shares are redeemable and retractable, a fixed 8% cumulative cash dividend and a conversion right to convert the preferred shares to common shares of the Company upon future common equity issuances that is capped based on the shareholder structure of the Company.

Under ASPE, the Company had recorded the issuance of a debt component of the Class A and C preferred shares and allocated the residual value to equity.

Under IFRS, the Company must recognize these shares as a financial liability as the preferred shares did not meet the definition of an equity under IAS 32 and the financial instrument is FVTPL. The Company determined that fair value of the financial liability at issuance to be \$10,300 and recorded an additional \$6,712 as financial liability.

Under ASPE, interest expense of \$430 was included in the consolidated statements of income as finance costs for the year ended December 31, 2019. This expense was reversed and the Company recorded a reduction in the financial liability of \$24 which is included in the consolidated statements of income under fair value through PL. The net impact on the consolidated statements of income is \$453.

(iii) Reversal of dividend payable to Class A, B and C preferred shareholders

Under ASPE, the Company had recognized a dividend payable to Class A, B, and C preferred shareholders offsetting the Company's retained earnings on the consolidated statements of financial position.

As described in note 27(b)(i) and (ii), under IFRS, the Company must recognize the dividend payable as a separate financial liability and a reversal of the previously recorded dividend payable against the Company's retained earnings is required.

(iv) Capitalization of transaction costs within carrying value of loan in accordance with IFRS 9

The Company paid BDC a commitment fee of \$234 to secure a loan.

Under ASPE, the Company had recognized the commitment fee that was paid for the loan as an expense on the consolidated statements of income.

Under IFRS, the commitment fees are directly attributable to issuance of the loan and would not have been incurred if the Company did not obtain the loan. Such fees are an integral part of the effective interest rate and the Company made an adjustment to the effective interest rate of the carrying value of the loan that resulted in an increase of \$234 to the carrying value. During the year ended December 31, 2019, an additional accretion expense of \$33 was recorded included the consolidated statements of income as finance costs. The net impact of the consolidated statements of income is a reduction in expenses of \$201.

(v) Adoption of IFRS 16 – Leases and adoption of IFRS 15 – Revenue from contracts with customers

Under ASPE, the Company had accounted for the lease of an equipment to be a finance lease and the lease of the warehouse and offices as operating leases. Expenses related to operating leases were expensed.

Under IFRS, the Company had recognized the lease of and equipment and warehouse to as right-of-use assets (note 14(b)). The accounting for the right of use assets equipment and warehouse resulted in a net decrease in expenses of \$12.

The adoption of IFRS 15 – Revenue from contracts with customers resulted in a change in timing of revenue recognition by the Company. The net impact is a decrease in revenue of \$330.

(vi) Income tax expense

Under ASPE, the Company had accounted for income taxes using the taxes payable method. Under IFRS, the Company must recognize the deferred tax balances for all deductible temporary differences and recognized uncertain tax positions in accordance with IFRIC 23: Uncertainty over Income Tax Treatments.

As at December 31, 2019, the Company had recognized a net deferred tax liability of \$1,861 (note 10). Movements of the deferred tax liability were recorded as income tax recovery of \$275

for the years ended December 31, 2019. The Company recognized an adjustment of \$113 as current income tax recovery for the year ended December 31, 2019.

(vii) Recognition of sales taxes payable

Under IFRS, the threshold for recognition of provisions is lower than ASPE, resulting in the Company recording a provision for sales taxes payable in accounts payable and accrued liabilities.

For the year ended December 31, 2019, the Company recognized \$108 of sales taxes recorded within other expenses.

(viii) Adjustment made to Kits.com acquisition values

Subsequent to the completion of the previous financial statements under ASPE, the Company had identified several measurement period adjustments related to its previously disclosed fair values of acquired net assets of Kits.com (note 6).

For the year ended December 31, 2019, the Company had recognized \$1,532 on its statement of income as a result of these measurement period adjustments.

(ix) Translation of Kits.com

Under IFRS, the Company must determine the functional currency of each of its entities in order to determine how to treat items denominated in foreign currencies. The Company has completed this assessment for KITS.com and its standalone financial statements and determined the functional currency of KITS.com to be U.S. dollars.

As the KITS.com functional currency is different from the Company's reporting currency of Canadian dollar, it must be translated upon consolidation using the current rate method under IFRS. Purchase price allocation adjustments including goodwill and intangible assets that were recorded as a result of the acquisition of KITS.com that were denominated in Canadian Dollars are required to be translated to U.S. dollars (the functional currency of KITS.com) using the historical rates and translated at the current rate method to the Company's reporting currency in Canadian Dollars.

Under ASPE, the purchase price allocation adjustment was not retranslated.

For the year ended December 31, 2019, the net impact on equity of this adjustment was \$1,638.

**(c) Reconciliation of comprehensive income for the year ending December 31, 2019**

	Note	<b>December 31</b>
		<b><u>2019</u></b>
Comprehensive loss, previously reported under ASPE		\$ (1,191)
Recognition of dividend payable component of non-redeemable Class B preferred shares as financial liability	27b(i)	(414)
Recognition of redeemable Class A and C preferred shares as financial liability	27b(ii)	453
Capitalization of transaction costs within carrying value of loan in accordance with IFRS 9	27b(iv)	201
Adoption of IFRS 16 - Leases	27b(v)	(12)
Adoption of IFRS 15 - Revenue from contracts with customers	27b(v)	(330)
Translation of foreign subsidiary	27b(ix)	(1,638)
Recognition of stock-based compensation in accordance with IFRS 2	(i)	(130)
Recognition of income tax balances	27b(vi)	388
Recognition of sales taxes payable	27b(vii)	(108)
Adjustment made to acquisition carrying values	27b(viii)	<u>1,532</u>
Comprehensive loss under IFRS		<u>\$ (1,249)</u>

**(i) Recognition of stock-based compensation in accordance with IFRS 2**

The Company uses the Black-Scholes option pricing model in its valuation of its stock option grant.

Under ASPE, the Company had used the calculated value method in its estimation of historical volatility in its determination of value of the stock options granted.

Under IFRS 2, the calculated value method is not an option for estimating the expected volatility and instead estimates its expected volatility based on historical comparable industry / size and management's expectation of market conditions. The change in the expected volatility resulted in an increase in the value of the stock option, requiring the Company to recognize an additional \$130 of stock-based compensation (note 21) for the year ended December 31, 2019.

**(d) Statement of cash flows**

The impact of the transition to IFRS on the Company's consolidated statement of cash flows consisted primarily of reclassifications within the cash generated from (used in) operations as a result of the re-stated profit and changes in items not affecting cash. In addition, the Company reclassified \$180 of rent expense from operating cash flow to financing cash flow due to the adoption of IFRS 16.

**KITS EYECARE LTD.**

**Unaudited condensed interim consolidated financial statements  
for the three and nine months ended September 30, 2020 and 2019**

See attached.

**KITS EYECARE LTD.**

Condensed Interim Consolidated Financial Statements

For the Three and Nine Months ended September 30, 2020 and September 30, 2019

(in thousands of Canadian Dollars, except share and per share data)

(Unaudited)

**KITS EYECARE LTD.****CONDENSED INTERIM CONSOLIDATED STATEMENTS OF INCOME**

(in thousands of Canadian Dollars, except share and per share data)

(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
Revenue (Note 3)	\$ 20,201	\$ 12,007	\$ 54,934	\$ 24,224
Cost of sales	14,260	8,638	38,282	17,354
Gross profit	5,941	3,369	16,652	6,870
Fulfillment (Note 4)	2,113	928	5,374	1,722
Marketing (Note 4)	1,992	794	5,370	2,112
General and administrative (Note 4)	623	263	1,873	748
Depreciation and amortization	498	442	1,504	850
Operating income	715	942	2,531	1,438
Finance costs - net (Note 7(d))	525	610	2,055	1,212
Other expenses (Note 4)	157	35	284	70
Income before income taxes	33	297	192	156
Income taxes	165	12	559	24
Net income / (loss) for the period	\$ (132)	\$ 285	\$ (367)	\$ 132
Earnings / (loss) per share (Note 11)				
Basic	\$ (0.03)	\$ 0.07	\$ (0.09)	\$ 0.05
Diluted	\$ (0.03)	\$ 0.04	\$ (0.09)	\$ 0.05

*The accompanying notes to the condensed interim consolidated financial statements are an integral part of these condensed interim consolidated financial statements.*

**KITS EYECARE LTD.****CONDENSED INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME/(LOSS)**

(in thousands of Canadian Dollars, except share and per share data)

(Unaudited)

	<b>Three months ended September 30,</b>		<b>Nine months ended September 30,</b>	
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
Net income / (loss) for the period	\$ (132)	\$ 285	\$ (367)	\$ 132
Other comprehensive (loss) / income for the period:				
Items that may be reclassified to profit and income				
Currency translation differences	(1,224)	547	803	(319)
Total comprehensive (loss) / income for the period	<u>\$ (1,356)</u>	<u>\$ 832</u>	<u>\$ 436</u>	<u>\$ (187)</u>

*The accompanying notes to the condensed interim consolidated financial statements are an integral part of these condensed interim consolidated financial statements.*

**KITS EYECARE LTD.****CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

(in thousands of Canadian Dollars, except share and per share data)

(Unaudited)

	<b>September 30,</b>	<b>December 31,</b>
	<b>2020</b>	<b>2019</b>
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 1,826	\$ 3,398
Accounts and other receivables	706	845
Inventory	5,285	2,837
Prepays, deposits and other assets (Note 5)	1,037	125
Total current assets	8,854	7,205
Property and equipment	390	334
Right-of-use asset (Note 6)	1,279	773
Deferred tax asset	3	5
Intangible assets	6,811	7,887
Goodwill	38,183	37,178
Total assets	<u>\$ 55,520</u>	<u>\$ 53,382</u>
<b>Liabilities and shareholder's equity</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 6,849	\$ 5,049
Tax payable	1,053	367
Deferred revenue (Note 3)	1,676	1,831
Loan (Note 7(a))	2,961	23,199
Lease liability (Note 6)	204	129
Total current liabilities	12,743	30,575
Loan (Note 7(a))	18,041	-
Redeemable Class A & C preferred shares (Note 7(b))	10,674	10,276
Preferred Class B liability & dividends payable (Note 7(c))	4,335	3,914
Deferred tax liability	1,727	1,866
Lease liability (Note 6)	855	546
Total liabilities	48,375	47,177
<b>Shareholders' equity</b>		
Share capital	7,324	7,324
Contributed surplus	634	130
Retained earnings (deficit)	(314)	53
Accumulated other comprehensive (loss)	(499)	(1,302)
Total shareholders' equity	7,145	6,205
Total liabilities and shareholder's equity	<u>\$ 55,520</u>	<u>\$ 53,382</u>

*The accompanying notes to the condensed interim consolidated financial statements are an integral part of these condensed interim consolidated financial statements.*

**KITS EYECARE LTD.**

**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**

(in thousands of Canadian Dollars, except share and per share data)

(Unaudited)

	Share Capital				Contributed surplus	Retained earnings (deficit)	Accumulated other comprehensive (loss) / income	Total
	Common shares		Class B preferred shares					
	Shares	Amount	Shares	Amount				
Balance at December 31, 2018	1,000,000	\$ -	-	\$ -	\$ -	\$ -	\$ -	
Shares returned to treasury	(1,000,000)	-	-	-	-	-	-	
Issuance of common shares in connection with acquisition	4,000,000	3,824	-	-	-	-	3,824	
Issuance of Preferred Shares B	-	-	7,000	3,500	-	-	3,500	
Net income and comprehensive income	-	-	-	-	-	132	(319)	
Balance at September 30, 2019	4,000,000	\$ 3,824	7,000	\$ 3,500	\$ -	\$ 132	\$ (319)	
Balance at December 31, 2019	4,000,000	\$ 3,824	7,000	\$ 3,500	\$ 130	\$ 53	\$ (1,302)	
Share-based payments	-	-	-	-	504	-	-	
Net loss and comprehensive income	-	-	-	-	-	(367)	803	
Balance at September 30, 2020	4,000,000	\$ 3,824	7,000	\$ 3,500	\$ 634	\$ (314)	\$ (499)	

*The accompanying notes to the condensed interim consolidated financial statements are an integral part of these condensed interim consolidated financial statements.*

**KITS EYECARE LTD.****CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS**

(in thousands of Canadian Dollars, except share and per share data)

(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
Operating activities				
Net income / (loss)	\$ (131)	\$ 285	\$ (367)	\$ 132
Items not affecting cash:				
Share-based payments	326	-	504	-
Depreciation of property and equipment	65	6	183	8
Amortization of intangible assets	433	436	1,321	842
Finance costs (Note 7(d))	522	610	2,066	1,212
Income tax expense	165	12	559	24
Foreign exchange gain	(17)	1	(159)	4
Change in non-cash operating working capital:				
Accounts receivable	709	(174)	100	(399)
Inventory	(406)	(386)	(2,448)	125
Prepaid expenses and other assets	(831)	(207)	(913)	(245)
Accounts payable and accrued liabilities	(283)	(921)	1,897	644
Deferred revenue	(135)	(44)	(155)	(356)
Income tax paid – net of refunds	72	(68)	72	(382)
<b>Cash provided by / (used in) operating activities</b>	<b>489</b>	<b>(450)</b>	<b>2,660</b>	<b>1,609</b>
Financing activities				
Repayment of lease obligation	(150)	-	(240)	-
Net proceeds from loan (Note 7(a))	-	-	-	23,166
Repayment of loan (Note 7(a))	(1,104)	(472)	(3,403)	(923)
Proceeds from issuance of share capital	-	-	-	7,000
<b>Cash (used in) / provided by financing activities</b>	<b>(1,254)</b>	<b>(472)</b>	<b>(3,643)</b>	<b>29,243</b>
Investing activities				
Purchase of property and equipment	(32)	(89)	(128)	(89)
Purchase of intangible assets	(34)	-	(34)	(673)
Net cash paid on acquisition of business	-	-	-	(28,275)
<b>Cash used in investing activities</b>	<b>(66)</b>	<b>(89)</b>	<b>(162)</b>	<b>(29,037)</b>
<b>(Decrease)/ Increase in cash and cash equivalents</b>	<b>(831)</b>	<b>(1,011)</b>	<b>(1,145)</b>	<b>1,815</b>
Foreign exchange effect on cash and cash equivalents	(247)	37	(427)	(21)
Cash and cash equivalents, beginning of period	2,904	2,768	3,398	-
<b>Cash and cash equivalents, end of period</b>	<b>\$ 1,826</b>	<b>\$ 1,794</b>	<b>\$ 1,826</b>	<b>\$ 1,794</b>

*The accompanying notes to the condensed interim consolidated financial statements are an integral part of these condensed interim consolidated financial statements.*

## **KITS EYECARE LTD.**

### **Notes to the Condensed Consolidated Interim Financial Statements**

(in thousands of Canadian Dollars, except share and per share data)

(Unaudited)

#### **1. Nature of operations**

Kits Eyecare Ltd. (the "Company") is an online retailer of eyecare, with sales primarily in the United States of America and Canada. The Company is a private company incorporated under the Business Corporations Act (British Columbia) on October 19, 2018 with its registered headquarters located at 1020 - 510 Seymour Street, Vancouver, BC, V6B 3J5.

#### **2. Basis of preparation and statement of compliance**

The Company prepares its annual consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). These condensed interim consolidated financial statements have been prepared in accordance with IAS 34, Interim Financial Reporting (IAS 34).

These condensed interim consolidated financial statements should be read in conjunction with the Company's most recent annual financial statements for the year ended December 31, 2019 as some disclosures from the annual consolidated financial statements have been condensed or omitted. There are no IFRS or International Financial Reporting Interpretations Committee interpretations that are not yet effective that would be expected to have a material impact on the Company's consolidated financial statements.

On November 12, 2020, the Board of Directors authorized these financial statements for issuance.

#### **Critical accounting estimates and judgements**

In preparing these condensed interim financial statements management has made judgements and estimates that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

The significant judgements made by management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those described in the most recent annual financial statements.

#### **COVID-19 pandemic**

In March 2020, the World Health Organization declared a global pandemic related to COVID-19. As a result of the pandemic, the Company observed a shift in shopping behavior from traditional brick-and-mortar stores to online shopping, and the Company had benefited from this change in customer habits with an increase in both orders and the onboarding rate for of new customers with an increase in revenues recorded in the second and third quarters of 2020.

To address the healthy spacing requirements, the Company split its warehouse into two shifts and opened an additional facility. In addition, the Company had some temporary and permanent loss of staff due to quarantines and other COVID-19 related reasons. These factors are resulting in higher operating expenses in the second and third quarters of 2020. These impacts and other potential COVID-related factors could lead to continued changes in revenue and/or profitability that the Company cannot predict.

Although global market conditions may have affected market confidence and consumer spending patterns, the Company remains well placed to grow revenues through ongoing product and service innovations. The Company has reviewed its exposure from other emerging business risks but has not identified any other risks that could significantly impact the estimates used in the determination of the valuation of inventory, lease liability, the recoverable amount of its long lived assets and the fair value of the redeemable Class A and Class C preferred shares that will have a significant impact on the Company's financial performance or position as at September 30, 2020.

### 3. Segment information and deferred revenue

The Company operates in a single reportable operating segment, being the sale of eyewear products to consumers.

#### Geographic information

The Company determines the geographic location of revenue based on the location of its customers.

	For the three months ended September 30,		For the nine months ended September 30,	
	2020	2019	2020	2019
United States of America	\$ 16,614	\$ 9,425	\$ 45,218	\$ 19,091
Canada	3,579	2,576	9,689	5,118
Rest of the world	8	6	27	15
Total	<u>\$ 20,201</u>	<u>\$ 12,007</u>	<u>\$ 54,934</u>	<u>\$ 24,224</u>

All of the Company's non-current assets are located in Canada.

#### Deferred revenue

Deferred revenue consists of credit vouchers of \$1,088 (2019: \$1,288), unfulfilled orders of \$333 (2019: \$445) and allowance of estimated returns of \$255 (2019: \$98). Credit vouchers relate to vouchers that have been issued or sold to customers. Revenue from credit vouchers is recognized when the vouchers are redeemed, when the likelihood of redemption becomes remote, or when the vouchers expire.

### 4. Expenses

#### Fulfillment

Fulfillment costs primarily consist of those costs incurred in operating and staffing the Company's fulfillment, optical lab, and customer service centers, third party fulfillment costs, and payment processing costs. During the three months and nine months ended September 30, 2020, the Company incurred \$1,167 and \$2,905 (2019: \$550 and \$963) of shipping expenses, \$483 and \$1,202 (2019: \$126 and \$251) of wages, salaries and benefits, payment processing fees of \$421 and \$1,178 (2019: \$249 and \$505) and other expenses of \$42 and \$89 (2019: \$3 and \$3).

#### Marketing

Marketing costs include advertising and payroll and related expenses for personnel engaged in marketing and selling activities. During the three months and nine months ended September 30,

2020, marketing expense comprises of \$1,892 and \$5,192 (2019: \$761 and \$2,038) of advertising and promotion, \$48 and \$126 (2019: \$33 and \$74) of wages, salaries and benefits and \$52 and \$52 (2019: \$nil and \$nil) of share-based payment expense.

#### **General and administrative**

General and administrative expenses consist of payroll and related expenses for employees involved in general corporate functions, costs associated with use by these functions of facilities and equipment, professional fees, technology expenses, and other general corporate costs. During the three months and nine months ended September 30, 2020, general and administrative expenses consist of one-time fee related to the acquisition of Kits.com of \$nil and \$167 (2019: \$25 and \$264), one-time fees incurred for in relation to the Company's initial public offering plans of \$334 and \$335 (2019: \$nil and \$nil), rental expenses of \$57 and \$169 (2019: \$50 and \$101), share-based payment of \$268 and \$446 (2019: \$nil and \$nil), technology expense of \$191 and \$408 (2019: \$46 and \$71), wages, salaries and benefits of \$381 and \$929 (2019: \$203 and \$405), foreign exchange gain of \$674 and \$743 (2019: \$108 and \$174) and other expense of \$66 and \$162 (2019: \$47 and \$81).

#### **Other expense**

For the three and nine months ended September 30, 2020, the Company had accrued \$22 and \$59 (2019: \$35 and \$70) of estimated sales taxes payable and \$135 and \$225 (2019: \$nil and \$nil) of estimated bonus fees payable to BDC.

### **5. Prepaids, deposits and other assets**

As of September 30, 2020, the Company has prepaid \$866 to various eye-frames suppliers to secure certain branded eye-frames and commence production of Kits-branded eye-frames.

### **6. Leases**

The Company leases equipment and space for its fulfillment and manufacturing activities. During the nine months ended September 30, 2020, the Company entered into a new equipment lease agreement for six years. The Company makes fixed monthly lease payment of \$9. On lease commencement, the Company recognized \$580 of right-of-use asset and lease liability.

### **7. Financial liabilities**

#### **(a) Loan**

The Company entered into a secured loan agreement for \$23.4 million with BDC Capital Inc. ("BDC") on March 26, 2019, with a repayment date of March 15, 2026. This loan bears interest at BDC floating rate minus 1%, plus a variance of 2.95% per annum and is payable on a monthly basis. As at September 30, 2020, BDC floating rate was 4.55% (2019: 6.05%). This loan is subordinated to the Company's credit card liabilities, senior to any other loans, and secured by the Company's assets.

The Company is subject to various covenants under the loan including a requirement to maintain certain financial ratios. On March 13, 2020, BDC waived and amended various of the Company's debt covenants and ratios. In addition, the repayment schedule of the loan was revised to reflect a \$500 pre-payment made in March 2020, the balloon payment was reduced by the pre-payment amount to \$5,150, and upon maturity or an initial public offering of the Company, BDC is entitled to receive

a one-time bonus payment of 0.3% of annual revenue. On September 30, 2020, BDC amended various of the Company's debt covenants and ratios, the one-time bonus payment, due upon maturity or an initial public offering of the Company, was revised to 0.45% of annual revenue from 0.3%, and the prepayment schedule was reset to start on October 1, 2020. As at September 30, 2020, the loan is in good standing and the Company is in compliance with the debt covenants.

As at September 30, 2020, the carrying amount of the loan is \$21,002 (2019: \$23,199) which comprises of unamortized portion of deferred transaction costs of \$159 (2019: \$201).

For the three and nine months ended September 30, 2020, the Company recognized \$365 and \$1,206 (2019: \$483 and \$945) of interest expense in finance costs.

**(b) Redeemable Class A and Class C preferred shares**

As at September 30, 2020, the fair value of the Class A and C preferred shares was \$10,674 (2019: \$10,276) with the incremental fair value loss recognized in finance costs (note 7(d)).

**(c) Non-redeemable Class B preferred shares**

As at September 30, 2020, the Company had recognized liability and dividends payable to the holders of the non-redeemable Class B preferred shares of \$4,335 (2019: \$3,914) with incremental interest expense recognized in finance costs (note 7(d)).

**(d) Finance costs**

	For the three months ended September 30,		For the nine months ended September 30,	
	2020	2019	2020	2019
Interest income net of bank charges	\$ 4	\$ 2	\$ (11)	\$ (4)
Interest expense on loan (note 7(a))	365	483	1,206	945
Fair value loss (note 7(b))	-	(17)	398	(3)
Interest expense on non-redeemable Class B preferred shares (note 7(c))	141	141	420	273
Interest expense on lease liability	15	1	42	1
Total finance costs	<u>\$ 525</u>	<u>\$ 610</u>	<u>\$ 2,055</u>	<u>\$ 1,212</u>

**8. Financial instruments and fair values**

The Company characterizes fair value measurements using a hierarchy that prioritizes inputs depending on the degree to which they are observable. The three levels of the fair value hierarchy are as follows:

- Level 1: fair value measurements are quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: fair value measurements are those derived from inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

- Level 3: fair value measurements are those derived from valuation techniques that include significant inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The carrying value of cash and cash equivalents, account receivables, accounts payable, and accrued liabilities approximate their fair value because of the short-term nature of these financial instruments. These financial instruments are classified as financial assets and liabilities at amortized cost.

The following table shows the carrying amount and the fair values of financial liabilities, including their levels in the fair value hierarchy as at September 30, 2020 and December 31, 2019.

	September 30, 2020			December 31, 2019		
	Carrying value	Level 2	Level 3	Carrying value	Level 2	Level 3
Financial liabilities						
Redeemable Class A and Class C preferred shares	\$ 10,674	\$ -	\$ 10,674	\$ 10,276	\$ -	\$ 10,276
Loan	21,002	21,150	-	23,199	23,400	-
Non-redeemable Class B preferred shares (dividends payable component)	4,335	-	4,335	3,914	-	3,914
Total	<u>\$ 36,011</u>	<u>\$ 21,150</u>	<u>\$ 15,009</u>	<u>\$ 37,389</u>	<u>\$ 23,400</u>	<u>\$ 14,190</u>

During the nine months ended September 30, 2020, there have been no transfers of amounts between Level 1, Level 2, and Level 3 of the fair value hierarchy.

The classification of the financial instruments as well as their carrying values as at September 30, 2020 and December 31, 2019 is shown in the table below.

	September 30, 2020				December 31, 2019			
	Amortized cost (Financial asset)	Amortized cost (Financial liabilities)	FVTPL	Total	Amortized cost (Financial asset)	Amortized cost (Financial liabilities)	FVTPL	Total
<b>Financial assets</b>								
Cash and cash equivalents	\$ 1,826	\$ -	\$ -	\$ 1,826	\$ 3,398	\$ -	\$ -	\$ 3,398
Accounts and other receivables	706	-	-	706	845	-	-	845
Total financial assets	<u>\$ 2,532</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,532</u>	<u>\$ 4,243</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,243</u>
<b>Financial liabilities</b>								
Account payable and accrued liabilities	\$ -	\$ 6,849	\$ -	\$ 6,849	\$ -	\$ 5,049	\$ -	\$ 5,049
Loan	-	21,002	-	21,002	-	23,199	-	23,199
Redeemable Class A and Class C preferred shares	-	-	10,674	10,674	-	-	10,276	10,276
Non-redeemable Class B preferred shares (dividends payable component)	-	4,335	-	4,335	-	3,914	-	3,914
Total financial liabilities	<u>\$ -</u>	<u>\$ 32,186</u>	<u>\$ 10,674</u>	<u>\$ 42,860</u>	<u>\$ -</u>	<u>\$ 32,162</u>	<u>\$ 10,276</u>	<u>\$ 42,438</u>

#### Valuation techniques and significant unobservable inputs

The following tables show the valuation techniques used in measuring Level 3 fair values for financial instruments in the consolidated statements of financial position, as well as the significant unobservable inputs used.

	<u>Valuation technique(s) and key input(s)</u>	<u>Relationship of unobservable inputs to fair value</u>
<b>Financial instruments measured at fair value</b>		
Redeemable Class A and Class C preferred shares	Discounted cash flows:  The valuation model considers the present value of expected value of the redemption feature, dividend payable and the conversion right, discounted using a risk-adjusted discount rate with an expected probability of occurrence	The estimated fair value would increase (decrease) if:  - The average risk adjusted discount rate were lower (higher)  - The probability of redemption decreased (increased) / probability of exercising the conversion right increased (decreased)
<b>Financial instruments not measured at fair value</b>		
Other financial liabilities:	Discounted cash flows:	N/A
- Loan		
- Non-redeemable Class B preferred shares: liability component	The valuation model considers the present value of expected payments, discounted using a risk-adjusted discount rate at initial recognition	

## 9. Share-based compensation

During the three months ended September 30, 2020, the board of directors approved an option grant by the Company of 84,867 options and expire seven years after initial grant date, subject to a vesting schedule and the terms of the Company's option plan. These options have a weighted average exercise price of \$13.07, a term of 7 years and generally vest over 3 years. The weighted average fair value of the options issued was estimated at \$9.71 per share option at the grant date using the Black-Scholes option pricing model. The option valuations were based on an expected option life of 7 years, a risk-free interest rate of 0.39%, a dividend yield of 0% and an expected volatility of 100%.

Share-based compensation expense related to stock options of \$325 and \$504 (2019: \$nil and \$nil) was recorded for the three and nine months ended September 30, 2020, respectively.

## 10. Related party transactions

During the three and nine months ended September 30, 2020, the Company has paid rent of \$19 and \$57 (2019: \$19 and \$32) to 18609694 Ontario Inc., a company owned by the minority shareholders of the Company. During the three and nine months ended September 30, 2020, the Company has paid rent of \$30 and \$90 (2019: \$30 and \$90) to 0999849 BC Inc., a company under common control of the majority shareholder of the Company. These amounts have been included in other general and administrative expense and are part of the Company's ordinary course of business. The contract terms are based on market rates for these types of services and amounts are payable on a monthly basis for the duration of the contract.

During the three and nine months ended September 30, 2020, the Company reimbursed Oak Ridges Vision Center Inc., a company owned by the minority shareholders of the Company for purchased inventory of \$56 and \$nil (2019: \$nil and \$nil). These amounts had been included in cost of sales and are based on market/third party invoiced rates for the inventory purchased.

Majority of the holders of the Class A, B and C Preferred Shares are the directors and certain key management of the Company; and their families and related corporations.

*Key management compensation*

Key management consists of the Board of Directors, the Chief Executive Officer, and the executives who report directly to the Chief Executive Officer.

	For the three months ended September 30,		For the nine months ended September 30,	
	2020	2019	2020	2019
Wages and short-term employee benefits	\$ 179	\$ 165	\$ 544	\$ 327
Share-based compensation	165	-	252	-
Total compensation expense	<u>\$ 344</u>	<u>\$ 165</u>	<u>\$ 796</u>	<u>\$ 327</u>

**11. Earnings / (loss) per share**

	For the three months ended September 30,		For the nine months ended September 30,	
	2020	2019	2020	2019
Basic earnings / (loss) per share	\$ (0.03)	\$ 0.07	\$ (0.09)	\$ 0.05
Diluted earnings / (loss) per share	\$ (0.03)	\$ 0.04	\$ (0.09)	\$ 0.05

**Weighted average number of ordinary shares used as the denominator in calculating:**

Basic earnings / (loss) per share	4,000,000	4,000,000	4,000,000	2,956,044
Diluted earnings / (loss) per share	4,000,000	10,000,000	4,000,000	2,956,044

For the three and nine months ended September 30, 2020, and nine months ended September 30, 2019, common share equivalents that could potentially dilute net income per basic share in the future, but were not included in the computation of diluted earnings per share because the impact would have been anti-dilutive comprised of all issued stock options and all preferred shares of the Company.

For the three months ended September 30, 2019, the weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share includes the 4 million issued common shares and 6 million common share equivalents of the converted Class B preferred shares. Net income attributable to ordinary shareholders (diluted) for the three months ended September 30, 2019 excludes interest expense recognized in finance costs on Class B preferred shares (note 7(c)) of \$141.

## **12. Contingencies**

The Company is, from time to time, involved in various claims, legal proceedings and complaints arising in the ordinary course of business. It does not believe that adverse decisions in any pending or threatened proceedings, or any amount it may be required to pay by reason thereof, will have a material adverse effect on the financial condition or future results of operations of the Company.

**KITS EYECARE LTD.**

**Unaudited pro forma combined financial statements  
for the nine months ended September 30, 2019, and the year ended December 31, 2019**

See the following pages.

**KITS EYECARE LTD.****Pro forma Condensed Combined Statement of Loss**

For the nine months ended September 30, 2019

(Unaudited)

(in thousands of Canadian Dollars unless otherwise noted)

	Consolidated Kits Eyecare Ltd	Kits.com Technologies Inc. (January 1, to April 4, 2019)	Notes	Pro Forma Adjustment	Unaudited Pro Forma Combined Nine Months Ended September 30, 2019
Revenue	\$ 24,224	\$ 13,049		\$ -	\$ 37,273
Cost of sales	17,354	10,196		-	27,550
<b>Gross profit</b>	<b>6,870</b>	<b>2,853</b>		<b>-</b>	<b>9,723</b>
Fulfillment	1,722	739		-	2,461
Marketing	2,112	730		-	2,842
General and administrative	748	750	3(a), 3(b)	(351)	1,147
Depreciation and amortization	850	10	3(c)	449	1,309
<b>Operating (loss)/income</b>	<b>1,438</b>	<b>624</b>		<b>(98)</b>	<b>1,964</b>
Finance costs / (income) - net	1,212	(12)	3(d)	624	1,824
Other expenses	70	38		-	108
<b>Income/(loss) before income taxes</b>	<b>156</b>	<b>598</b>		<b>(722)</b>	<b>32</b>
Income taxes	24	218	3(e)	(155)	87
<b>Net income/(loss)</b>	<b>\$ 132</b>	<b>\$ 380</b>		<b>\$ (567)</b>	<b>\$ (55)</b>
Other comprehensive income / (loss) for the period:					
Currency translation differences - loss	(319)	(31)		-	(350)
<b>Total comprehensive (loss) / income for the period</b>	<b>\$ (187)</b>	<b>\$ 349</b>		<b>\$ (567)</b>	<b>\$ (405)</b>
<b>Loss per share (Adjusted for Share Split):</b>					
Basic					\$ (0.01)
Diluted					\$ (0.01)
Weighted average outstanding number of shares - basic			4		9,200,000
Weighted average outstanding number of shares - diluted			4		9,200,000

**KITS EYECARE LTD.****Pro forma Condensed Combined Statement of Loss**

For the year ended December 31, 2019

(Unaudited)

(in thousands of Canadian Dollars unless otherwise noted)

	Consolidated Kits Eyecare Ltd	Kits.com Technologies Inc. (January 1, to April 4, 2019)	Notes	Pro Forma Adjustment	Unaudited Pro Forma Combined Year Ended Dec 31, 2019
Revenue	\$ 36,897	\$ 13,049		\$ -	\$ 49,946
Cost of sales	26,085	10,196		-	36,281
<b>Gross profit</b>	<b>10,812</b>	<b>2,853</b>		<b>-</b>	<b>13,665</b>
Fulfillment	2,717	739		-	3,456
Marketing	3,168	730		-	3,898
General and administrative	1,581	750	3(a), 3(b)	(354)	1,977
Depreciation and amortization	1,327	10	3(c)	449	1,786
<b>Operating (loss)/income</b>	<b>2,019</b>	<b>624</b>		<b>(95)</b>	<b>2,548</b>
Finance costs / (income) - net	1,821	(12)	3(d)	624	2,433
Other expenses	108	38		-	146
<b>Income/(loss) before income taxes</b>	<b>90</b>	<b>598</b>		<b>(719)</b>	<b>(31)</b>
Income taxes	37	218	3(e)	(155)	100
<b>Net income/(loss)</b>	<b>\$ 53</b>	<b>\$ 380</b>		<b>\$ (564)</b>	<b>\$ (131)</b>
Other comprehensive income / (loss) for the year:					
Currency translation differences - loss	(1,302)	(31)		-	(1,333)
<b>Total comprehensive (loss) / income for the year</b>	<b>\$ (1,249)</b>	<b>\$ 349</b>		<b>\$ (564)</b>	<b>\$ (1,464)</b>
<b>Loss per share (Adjusted for Share Split):</b>					
Basic				\$	(0.01)
Diluted				\$	(0.01)
Weighted average shares outstanding – basic			4		9,200,000
Weighted average shares outstanding - diluted			4		9,200,000

## **KITS EYECARE LTD.**

### **Notes to Pro forma Condensed Combined Financial Statements**

For the nine months ended September 30, 2019 and year ended December 31, 2019

(Unaudited)

(in thousands of Canadian Dollars unless otherwise noted)

#### **1. Basis of presentation**

These unaudited pro forma condensed combined financial statements of Kits Eyecare Ltd. ("KITS") have been prepared to give effect to the acquisition of 100% of the shares of Kits.com Technologies Inc. ("KCTI") by KITS which closed on April 5, 2019.

The unaudited pro forma condensed combined statement of loss for the year ended December 31, 2019 are based on the audited consolidated financial statements for KITS for the year ended December 31, 2019 prepared in accordance with International Financial Reporting Standards ("IFRS") and the audited consolidated financial statements for KCTI for the period ended April 4, 2019 prepared in accordance with IFRS. The consolidated audited financial statements of KITS as at December 31, 2019 includes a consolidated statement of financial position that reflects the acquisition and therefore, a pro forma condensed balance sheet had not been presented in these pro forma condensed combined financial statements.

The unaudited pro forma condensed combined statement of loss for the nine months ended September 30, 2019 are based on the unaudited consolidated nine months ended September 30, 2019 financial information for KITS prepared in accordance with IFRS and accounting policies that are disclosed in the audited consolidated financial statements for KITS for the year ended December 31, 2019, and the audited consolidated financial statements for KCTI for the period ended April 4, 2019 prepared in accordance with IFRS.

The unaudited pro forma condensed combined statement of loss (including the pro forma loss per share) for the nine-months ended September 30, 2019 and the year ended December 31, 2019 gives effect to the acquisition as if it had closed on January 1, 2019.

The unaudited pro forma condensed combined financial statements of KITS have been prepared by management in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board for inclusion in a Prospectus for KITS to be filed in 2020. In the opinion of management, the pro forma consolidated financial statements include all adjustments necessary for fair presentation of the transaction.

The unaudited pro forma condensed combined financial statements should be read in conjunction with: (i) the audited consolidated financial statements of KITS for the year ended December 31, 2019 and for the period from October 19, 2018 (date of incorporation) to December 31, 2018 and the related notes thereto; and (ii) the audited financial statements of KCTI for the period ended April 4, 2019, and years ended December 31, 2018 and 2017 and the related notes thereto.

These unaudited pro forma condensed combined financial statements have been prepared for illustrative purposes only and are not necessarily indicative of the operating results that would have been achieved if the acquisition had been completed for the periods presented, nor do they purport to project the results of operations or financial position of the combined entities for any future period or as of any future date. These unaudited pro forma condensed combined financial statements may not be useful in predicting the future financial position and results of operations of the combined company. The actual results of operations may differ significantly from the pro forma amounts presented herein.

The historical financial statements have been adjusted in the pro forma financial statements to give effect to pro forma events that are (1) directly attributable to the business combination, (2) factually supportable and (3) with respect to the pro forma consolidated statements of earnings, expected to have a continuing impact on the combined results following the business combination.

#### **2. Description of transaction**

On April 5, 2019, KITS acquired all of the outstanding shares of KCTI for total purchase consideration of \$46.5 million (the "Transaction"). KCTI provides eyecare online, with sales primarily in the United States and Canada. Management determined that the assets and processes comprised a business and therefore accounted for the transaction as a business combination using the acquisition method of accounting.

In order to finance the acquisition, KITS entered into a \$23.4 million loan with BDC Capital and used this amount, along with the KITS's cash on hand to acquire the equity of KCTI. The aggregate purchase consideration was \$46.5 million, including \$32.7 million of cash, the issuance of 4.0 million common shares valued at \$3.8 million, and the issuance of 10,000 Class A preferred shares with a fair value of \$10.0 million.

**KITS EYECARE LTD.****Notes to Pro forma Condensed Combined Financial Statements**

For the nine months ended September 30, 2019 and year ended December 31, 2019

(Unaudited)

(in thousands of Canadian Dollars unless otherwise noted)

**3. Pro forma assumptions and adjustments - Transaction**

The following assumptions and adjustments have been recorded in the pro forma financial statements to reflect the pro forma effects had the Transaction occurred on January 1, 2019:

- (a) The addition of \$125 in wages associated with management wage changes and wages related to additions to the management team as if the transaction would have occurred on January 1, 2019.
- (b) \$476 and \$479 adjustments related to costs that were directly attributable to the transaction, such as legal, due diligence, tax, audit, consulting, and other professional services were incurred for the nine months ended September 30, 2019 and for the year ended December 31, 2019, respectively. These amounts would not have been incurred in the year had the transaction occurred on January 1, 2019 and therefore have been removed on a pro forma basis.
- (c) At the time of the acquisition, a software intangible asset in the amount of \$1,620 and a customer relationships intangible asset in the amount of \$6,660 were recognized with a useful life of four and five years, respectively. Had the acquisition occurred on January 1, 2019, a full year of amortization would have been recorded.
- (d) To reflect a full year of finance expense of \$624 as if the loan had been in place and the Class B Preferred Shares had been issued as of January 1, 2019. The finance expense includes \$146 of accretion expense related to the Class B Preferred Shares dividend payable and \$478 of loan interest expense including the amortization of debt issuance costs.
- (e) To reduce income tax expense by \$155 for the estimated tax effects of the above noted pro forma adjustments using the statutory tax rate of 27% for the respective periods.

**4. Basic and diluted weighted average of Kits common shares outstanding**

	Notes	Nine months ended September 30, 2019	Year ended December 31, 2019
<i>Adjusted for Share Split:</i>			
Basic weighted average of KITS common shares outstanding		7,404,110	7,404,110
Adjusted for:			
Adjusted for Transaction	(a)	1,795,890	1,795,890
<b>Basic and diluted weighted average of Kits common shares outstanding (pro forma)</b>		<b>9,200,000</b>	<b>9,200,000</b>
<i>Prior to Share Split:</i>			
As reported			
Basic weighted average of KITS common shares outstanding		3,219,178	3,219,178
Adjusted for:			
Adjusted for Transaction	(a)	780,822	780,822
<b>Basic and diluted weighted average of Kits common shares outstanding (pro forma)</b>		<b>4,000,000</b>	<b>4,000,000</b>

- (a) The calculation of basic and diluted pro forma earnings per common share reflects the issuance of 4,000,000 common shares (pre Share Split) as share consideration for the acquisition as if the issuance had taken place as of January 1, 2019.

**KITS.COM TECHNOLOGIES INC.**  
**(FORMERLY LD VISION GROUP INC.)**

Independent Auditors' Report

Audited financial statements  
as at and for the period January 1 to April 4, 2019,  
and as at and for the years ended December 31, 2018 and 2017

See attached for both.

**KITS.COM TECHNOLOGIES INC.**  
**(FORMERLY LD VISION GROUP INC.)**

Financial Statements

For the period ending April 4, 2019 and years ended December 31, 2018 and 2017  
(in thousands of Canadian Dollars, except share and per share data)

## Independent Auditor's Report

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To the Shareholders of Kits.com Technologies Inc. (formerly LD Vision Group Inc.):

### Opinion

We have audited the financial statements of Kits.com Technologies Inc. (formerly LD Vision Group Inc.) (the "Company"), which comprise the statements of financial position as at April 4, 2019, December 31, 2018, December 31, 2017, and January 1, 2017 and the statements of income and comprehensive income, changes in equity, and cash flows for the period from January 1, 2019 to April 4, 2019 and for the years ended December 31, 2018 and December 31, 2017, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at April 4, 2019, December 31, 2018, December 31, 2017, and January 1, 2017, and its financial performance and its cash flows for the period from January 1, 2019 to April 4, 2019 and for the years ended December 31, 2018 and December 31, 2017, in accordance with International Financial Reporting Standards.

### Basis for Opinion

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audits of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Emphasis of Matter - Change in Accounting Framework

We draw attention to Note 2 to the financial statements, which describes that the Company has changed its framework of accounting from Canadian Accounting Standards for Private Enterprises to International Financial Reporting Standards as issued by the International Accounting Standards Board at January 1, 2017. These standards were applied retrospectively by management to the comparative information in these financial statements, including the statement of financial position as at January 1, 2017, and the statements of income and comprehensive income, changes in equity and cash flows for the year ended December 31, 2017 and related disclosures. Our opinion is not modified in respect of this matter.

### Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

### Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and

appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audits and significant audit findings, including any significant deficiencies in internal control that we identify during our audits.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Giacomo Angelini.

Vancouver, British Columbia

November 26, 2020

*MNP* LLP

Chartered Professional Accountants

**KITS.COM TECHNOLOGIES INC.**  
**(FORMERLY LD VISION GROUP INC.)**  
**STATEMENTS OF INCOME AND COMPREHENSIVE INCOME**  
(in thousands of Canadian Dollars, except share and per share data)

	<b>Period / year ended</b>		
	<b>April 4, 2019</b>	<b>December 31, 2018</b>	<b>December 31, 2017</b>
Revenue (Note 6)	\$ 13,049	\$ 47,620	\$ 42,951
Cost of sales	10,196	34,423	31,197
Gross profit	2,853	13,197	11,754
Fulfillment	739	2,586	1,779
Marketing	730	2,188	1,887
General and administrative	750	1,697	815
Depreciation and amortization	10	54	93
Income from operations	624	6,672	7,180
Other expense	38	30	-
Finance income	(12)	(24)	(24)
Income before income taxes	598	6,666	7,204
Income taxes (Note 8)	218	2,222	1,848
Net income for the year	<u>\$ 380</u>	<u>\$ 4,444</u>	<u>\$ 5,356</u>
Other comprehensive income for the year:			
<i>Items that may be classified to profit and income</i>			
Currency translation differences	(31)	170	(195)
Total comprehensive income for the year	<u>\$ 349</u>	<u>\$ 4,614</u>	<u>\$ 5,161</u>

*The accompanying notes to the financial statements are an integral part of these financial statements.*

**KITS.COM TECHNOLOGIES INC.**  
**(FORMERLY LD VISION GROUP INC.)**  
**STATEMENTS OF FINANCIAL POSITION**  
(in thousands of Canadian Dollars, except share and per share data)

	<u>April 4, 2019</u>	<u>December 31, 2018</u>	<u>December 31, 2017</u>	<u>January 1, 2017</u>
<b>Assets</b>				
Current assets:				
Cash and cash equivalents	\$ 4,401	\$ 2,898	\$ 3,086	\$ 4,905
Accounts receivables	361	1,088	1,955	932
Prepays, deposits and other current assets	205	104	522	497
Inventory (Note 9)	<u>1,410</u>	<u>1,686</u>	<u>351</u>	<u>131</u>
Total current assets	6,377	5,776	5,914	6,465
Property and equipment (Note 10)	32	147	186	316
Deferred tax asset	<u>153</u>	<u>71</u>	<u>6</u>	<u>-</u>
Total assets	<u>\$ 6,562</u>	<u>\$ 5,994</u>	<u>\$ 6,106</u>	<u>\$ 6,781</u>
<b>Liabilities and shareholder's equity</b>				
Current liabilities:				
Accounts payable and accrued liabilities	\$ 2,664	\$ 2,318	\$ 1,419	\$ 1,679
Deferred revenue (Note 6)	1,645	1,729	3,716	4,255
Tax payable (Note 8)	<u>319</u>	<u>362</u>	<u>-</u>	<u>-</u>
Total current liabilities	4,628	4,409	5,135	5,934
Deferred tax liability	<u>-</u>	<u>-</u>	<u>-</u>	<u>37</u>
Total liabilities	4,628	4,409	5,135	5,971
Shareholders' equity:				
Share capital (Note 14)	1	1	1	1
Retained earnings	1,989	1,609	1,165	809
Accumulated other comprehensive loss	<u>(56)</u>	<u>(25)</u>	<u>(195)</u>	<u>-</u>
Total shareholders' equity	1,934	1,585	971	810
Total liabilities and shareholder's equity	<u>\$ 6,562</u>	<u>\$ 5,994</u>	<u>\$ 6,106</u>	<u>\$ 6,781</u>

*The accompanying notes to the financial statements are an integral part of these financial statements.*

**KITS.COM TECHNOLOGIES INC.**  
**(FORMERLY LD VISION GROUP INC.)**  
**STATEMENTS OF CHANGES IN EQUITY**

(in thousands of Canadian Dollars, except share and per share data)

	Common shares (Note 14)	Retained earnings	Accumulated other comprehensive (loss) / income	Total
January 1, 2017	\$ 1	\$ 809	\$ -	\$ 810
Net income and comprehensive income	-	5,356	(195)	5,161
Dividends paid during the year	-	(5,000)	-	(5,000)
Balance as at December 31, 2017	<u>1</u>	<u>1,165</u>	<u>(195)</u>	<u>971</u>
Net income and comprehensive income	-	4,444	170	4,614
Dividends paid during the year	-	(4,000)	-	(4,000)
Balance as at December 31, 2018	<u>1</u>	<u>1,609</u>	<u>(25)</u>	<u>1,585</u>
Net income and comprehensive income	-	380	(31)	349
Balance as at April 4, 2019	<u>\$ 1</u>	<u>\$ 1,989</u>	<u>\$ (56)</u>	<u>\$ 1,934</u>

*The accompanying notes to the financial statements are an integral part of these financial statements.*

**KITS.COM TECHNOLOGIES INC.**  
**(FORMERLY LD VISION GROUP INC.)**  
**STATEMENTS OF CASH FLOWS**

(in thousands of Canadian Dollars, except share and per share data)

	Period / year ended		
	April 4, 2019	December 31, 2018	December 31, 2017
Operating activities			
Net income	\$ 380	\$ 4,444	\$ 5,356
Items not affecting cash:			
Depreciation of property and equipment	10	54	93
Foreign exchange loss (gain)	(21)	51	(11)
Income tax expense (Note 9)	218	2,222	1,848
Change in non-cash operating working capital:			
Accounts receivables	700	986	(1,121)
Inventory	276	(1,335)	(220)
Prepays, deposits and other current assets	(24)	363	(221)
Accounts payable and accrued liabilities	395	730	(139)
Deferred revenue	(84)	(1,987)	(539)
Income taxes paid (Note 8)	(420)	(1,871)	(1,708)
<b>Cash provided by operating activities</b>	<b>1,430</b>	<b>3,657</b>	<b>3,338</b>
Financing activities			
Dividend payments (Note 14)	-	(4,000)	(5,000)
<b>Cash used in financing activities</b>	<b>-</b>	<b>(4,000)</b>	<b>(5,000)</b>
Investing activities			
Purchase of property and equipment (Note 10)	(1)	(2)	(10)
Proceeds from disposal of property and equipment (Note 10)	107	-	-
<b>Cash provided by (used in) investing activities</b>	<b>106</b>	<b>(2)</b>	<b>(10)</b>
<b>Increase/(Decrease) in cash and cash equivalents</b>	<b>1,536</b>	<b>(345)</b>	<b>(1,672)</b>
Foreign exchange effect on cash and cash equivalents	(33)	157	(147)
Cash and cash equivalents, beginning of period	2,898	3,086	4,905
<b>Cash and cash equivalents, end of period</b>	<b>\$ 4,401</b>	<b>\$ 2,898</b>	<b>\$ 3,086</b>

*The accompanying notes to the financial statements are an integral part of these financial statements.*

**KITS.COM TECHNOLOGIES INC.  
(FORMERLY LD VISION GROUP INC.)**

**NOTES TO THE FINANCIAL STATEMENTS**

**For the period ended April 4, 2019 and years ended December 31, 2018 and 2017**

(in thousands of Canadian Dollars, except share and per share data)

**1. Nature of operations**

Kits.com Technologies Inc. (formerly LD Vision Group Inc.) (the "Company") is an online retailer of eyecare, with sales primarily in the United States and Canada. The Company is a private company incorporated under the Canada Business Corporations Act on December 30, 2002 with its registered headquarters located at 1020 - 510 Seymour Street, Vancouver, BC, V6B 3J5.

On March 4, 2019, the Company and its shareholders entered into an agreement with Kits Eyecare Ltd. and Rain City Labs Inc. to sell all the shares of the Company. Kits Eyecare Ltd. acquired the Company on April 5, 2019.

Amended Articles of Incorporation were filed under the Canada Business Corporations Act on May 30, 2019 to change the name of the Company to Kits.com Technologies Inc. (formerly LD Vision Group Inc.).

**2. Basis of preparation and statement of compliance**

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The financial statements have been prepared on a going concern basis, under the historical cost convention except for financial instruments which are measured at fair value.

For all periods up to and including the year ended December 31, 2019, the Company previously prepared its financial statements in accordance with Canadian Accounting Standards for Private Enterprises ("ASPE").

The Company adopted IFRS in accordance with IFRS 1, First-Time Adoption of International Financial Reporting Standards ("IFRS 1") as at January 1, 2017. In conjunction with the adoption of IFRS, on January 1, 2017, the Company early adopted IFRS 15: Revenue from Contracts with Customers ("IFRS 15"), IFRS 9: Financial Instruments ("IFRS 9") and IFRS 16: Leases ("IFRS 16"). Subject to certain transition elections provided for in IFRS 1 and disclosed in Note 18, the Company has consistently applied the same accounting policies in the Company's opening IFRS balance sheet as at January 1, 2017 and throughout all periods presented, as if these policies had always been in effect. Note 18 discloses the impact of the transition to IFRS on the Company's financial position, financial performance, and cash flows, including the nature and effect of significant changes in accounting policies. The exemptions the Company has taken in applying IFRS for the first time are set out in Note 18.

These financial statements are approved by and authorized for issuance by the Company's Board of Directors on November 26, 2020.

### **3. Significant accounting policies:**

The significant accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all periods presented.

#### **(a) Functional and presentation currency**

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the Company operates (“the functional currency”). The functional currency of the Company is the United States Dollars.

The financial statements are presented in Canadian dollars.

#### **(b) Foreign currency translation**

Revenues, expenses, and non-monetary assets and liabilities denominated in foreign currencies are recorded at the exchange rate prevailing at the transaction date. Monetary assets and liabilities denominated in foreign currencies are translated at exchange rates prevailing at the statement of financial position date. Unrealized and realized translation gains and losses are reflected in the statements of income and comprehensive income.

The results and financial position of the Company were translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet,
- income and expenses for each statement of profit or loss and statement of comprehensive income are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated on the dates of the transactions), and
- all resulting exchange differences are recognized in other comprehensive income.

#### **(c) Revenue recognition**

The Company’s primary source of revenue is derived from selling optical products through online platforms.

The Company recognizes revenue when control of the goods is transferred to the customer, which generally occurs upon delivery, to the customer. When the Company receives payment before performance obligations are satisfied, these payments are initially recorded as a contract liability under deferred revenue and recognized as revenue in the period when goods are delivered and the control is transferred to the customer.

Revenue represents cash received from customers, net of sales taxes, rebates, and discounts and is presented net of an allowance for estimated returns, which is based on historical experience. Consideration of these factors results in an estimated allowance for sales returns. Shipping fees billed to customers are recorded as revenue, and shipping costs incurred to deliver the goods to the

customer from the Company's warehouse are recognized within fulfillment expenses in the same period the related revenue is recognized.

**(d) Expenses**

The Company classified its operating expenses as:

Cost of goods sold consists of the cost of third-party brand and KITS brand products sold to customers, inventory freight, inventory shrinkage costs, and inventory valuation adjustments, offset by reductions for promotions and percentage or volume rebates offered by the Company's vendors.

Fulfillment costs primarily consist of those costs incurred in operating and staffing our fulfillment, optical lab, and customer service centers, third party fulfillment costs, and payment processing costs.

Marketing costs include advertising and payroll and related expenses for personnel engaged in marketing and selling activities.

Selling, general and administrative expenses consist of payroll and related expenses for employees involved in general corporate functions, costs associated with use by these functions of facilities and equipment, professional fees and other general corporate costs.

**(e) Cash and cash equivalents**

Cash and cash equivalents include cash on hand, deposits held on call with banks and other short-term highly liquid investments with original maturities of three months or less.

**(f) Accounts receivables**

Accounts receivables consist of credit card receivables and are initially recognized at fair value and subsequently measured at amortized cost using the effective interest method, less expected credit loss. Any allowance for expected credit loss is recorded against trade receivables and is based on historical experience.

**(g) Inventory**

Inventory consists of optical products held for sale and are stated at the lower of cost and net realizable value. Included in the cost of inventories are costs of purchase net of vendor allowances, plus other costs, such as transportation and duties, that are directly incurred to bring inventories to their present location and condition. Cost is determined using the weighted average cost method, based on individual products. Net realizable value is the estimated selling price in the normal course of business less the estimated costs necessary to make the sale. Storage costs, indirect administrative overhead and certain selling costs related to inventories are expensed in the period that these costs are incurred. Inventories are written down to net realizable value when the cost of inventories is estimated to be unrecoverable due to obsolescence, damage, or declining selling prices. When circumstances that previously caused inventories to be written down below cost no longer exist or when there is clear evidence of an increase in realizable value, the amount of the write-down previously recorded is reversed.

## **(h) Property and equipment**

Property and equipment are recorded at cost, less accumulated depreciation. Costs includes all costs required to bring the item into its intended use. Depreciation methods and useful lives are reviewed annually and are adjusted prospectively, if appropriate.

Depreciation is determined at the following annual rates:

Automobile	30% declining-balance
Office and computer equipment	20% to 30% declining-balance
Furniture and fixtures	20% declining-balance
Leasehold improvements	20% declining-balance

## **(i) Leases**

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Company assesses whether the contract involves the use of an identified asset, whether the Company has the right to obtain substantially all of the economic benefits from use of the asset during the term of the arrangement and whether the Company has the right to direct the use of the asset.

The Company has elected not to recognize right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets. The lease payments associated with these leases are charged directly to the statements of income and comprehensive income on a straight-line basis over the lease term.

## **(j) Impairment of long-lived assets**

The carrying amount of the Company's non-financial assets (other than contract assets) is reviewed at each reporting date to determine whether there is any indication of impairment. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. An impairment loss is recognized whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognized in the statements of income and comprehensive income.

The recoverable amount of an asset is the greater of its fair value less cost to sell and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects the current market assessment of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independently from other assets, the recoverable amount is determined for the cash generating unit to which the asset belongs.

An impairment loss is only reversed if there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount, however, not to an amount higher than the carrying amount that would have been determined had no impairment loss been recognized in previous years. Assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment.

## **(k) Income taxes**

Income tax expense comprises current and deferred tax. It is recognized in profit or loss except to the extent it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

The Company has determined that interest and penalties related to income taxes, including uncertain tax treatments, do not meet the definition of income taxes, and has accounted for them under IAS 37 Provisions, Contingent Liabilities and Contingent Assets.

### *Current tax*

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to the tax payable or receivable in respect of previous years. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any. It is measured using tax rates enacted or substantively enacted at the reporting date. Current tax also includes any tax arising from dividends.

Current tax assets and liabilities are offset only if certain criteria are met.

### *Deferred tax*

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries, associates, and joint arrangements to the extent that the Company is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising upon the initial recognition of goodwill.

Deferred tax assets are recognized for unused tax losses, unused tax credits, and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Future taxable profits are determined based on the reversal of relevant taxable temporary differences. If the amount of taxable temporary differences is insufficient to recognize a deferred tax asset in full, then future taxable profits, adjusted for reversals of existing temporary differences, are considered, based on the business plans of the Company. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized; such reductions are reversed when the probability of future taxable profits improves.

Unrecognized deferred tax assets are reassessed at each reporting date and recognized to the extent that it has become probable that future taxable profits will be available against which they can be used.

## **(l) Share capital**

The Company's Ordinary Shares Class A to D are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

The Company's Special Shares E to P shares are classified as equity as it is the Company's option to redeem those shares. The Company will classify the Special Shares upon issuance of a notice of redemption as a financial liability.

### **(m) Financial instruments**

#### *Classification*

The Company classifies its financial instruments in the following categories: at fair value through profit and loss ("FVTPL"), at fair value through other comprehensive income (loss) ("FVTOCI") or at amortized cost. The Company determines the classification of financial assets at initial recognition.

The classification of instruments is driven by the Company's business model for managing the financial assets and their contractual cash flow characteristics.

Financial liabilities are measured at amortized cost, unless they are required to be measured at FVTPL (such as instruments held for trading or derivatives) or if the Company has opted to measure them at FVTPL.

#### *Measurement*

- Financial assets and liabilities at amortized cost

Financial assets and liabilities at amortized cost are initially recognized at fair value plus or minus transaction costs, respectively, and subsequently carried at amortized cost less any impairment.

- Financial assets and liabilities at FVTPL

Financial assets and liabilities carried at FVTPL are initially recorded at fair value and transaction costs are expensed in the statements of income and comprehensive income. Realized and unrealized gains and losses arising from changes in the fair value of the financial assets and liabilities held at FVTPL are included in the statements of income and comprehensive income in the period in which they arise. Where management has opted to recognize a financial liability at FVTPL, any changes associated with the Company's own credit risk will be recognized in other comprehensive income.

#### *Impairment of financial assets at amortized cost*

The Company recognizes a loss allowance for expected credit losses on financial assets that are measured at amortized cost.

At each reporting date, the Company measures the loss allowance for the financial asset at an amount equal to the lifetime expected credit losses if the credit risk on the financial asset has increased significantly since initial recognition. If at the reporting date, the financial asset has not increased significantly since initial recognition, the Company measures the loss allowance for the financial asset at an amount equal to the twelve month expected credit losses. The Company shall recognize in the statements of income and comprehensive income as an impairment gain or loss, the amount of expected credit losses (or reversal) that is required to adjust the loss allowance at the reporting date to the amount that is required to be recognized.

### *Derecognition*

The Company derecognizes financial assets only when the contractual rights to cash flows from the financial assets expire, or when it transfers the financial assets and substantially all of the associated risks and rewards of ownership to another entity. Gains and losses on derecognition are generally recognized in the statements of income and comprehensive income. However, gains and losses on derecognition of financial assets classified as FVTOCI remain within accumulated other comprehensive income.

The Company derecognizes financial liabilities only when its obligations under the financial liabilities are discharged, cancelled, or expired. Generally, the difference between the carrying amount of the financial liability derecognized and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognized in the statements of income and comprehensive income.

## **4. Significant accounting judgements, estimates and assumptions**

The preparation of the financial statements requires management to make estimates and judgments in applying the Company's accounting policies that affect the reported amounts and disclosures made in the financial statements and accompanying notes.

Estimates and assumptions are used mainly in determining the measurement of balances recognized or disclosed in the financial statements and are based on a set of underlying data that may include management's historical experience, knowledge of current events and conditions, and other factors that are believed to be reasonable under the circumstances.

Management continually evaluates the estimates and judgments used in the preparation of the financial statements. These estimates and judgments have been applied in a manner consistent with prior periods and there are no known trends, commitments, events, or uncertainties that management believes will materially affect the methodology or assumptions utilized in making these estimates and judgments.

The following are the accounting policies subject to judgments and key sources of estimation uncertainty that the Company believes could have the most significant impact on the amounts recognized in the financial statements.

### **Inventories**

*Key Sources of Estimation:* Inventories are carried at the lower of cost and net realizable value. In estimating net realizable value, the Company uses estimates related to fluctuations in inventory levels, planned production, customer behaviour, obsolescence, future selling prices, and costs necessary to sell the inventory.

### **Leases**

*Judgments Made in Relation to Accounting Policies Applied:* The Company exercises judgment when contracts are entered into that may give rise to a right-of-use asset that would be accounted for as a lease. Judgment is required in determining the appropriate lease term on a lease by lease basis. The Company considers all facts and circumstances that create an economic incentive to exercise a renewal option or to not exercise a termination option at inception and over the term of the lease, including investments in major leaseholds, operating performance, and changed circumstances. The

periods covered by renewal or termination options are only included in the lease term if the Company is reasonably certain to exercise that option. Changes in the economic environment or changes in the retail industry may impact the assessment of the lease term and any changes in the estimate of lease terms may have a material impact on the Company's statements of financial position.

## 5. Change in accounting policies: standards issued but not yet effective

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Company's financial statements are disclosed below. The Company intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

### Amendments to IAS 1 and IAS 8: Definition of Material

In October 2018, the IASB issued amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors to align the definition of 'material' across the standards and to clarify certain aspects of the definition, effective January 1, 2020. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general-purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.' The amendments to the definition of material is not expected to have a significant impact on the Company's financial statements.

## 6. Revenue

The Company recognizes revenue at a point in time – when the products are delivered to the customers.

### Geographic information

The Company determines the geographic location of revenue based on the location of its customers.

	For the period / year ended		
	April 4, 2019	December 31, 2018	December 31, 2017
United States	\$ 10,133	\$ 34,441	\$ 34,901
Rest of the world	2,916	13,179	8,050
Total revenue	<u>\$ 13,049</u>	<u>\$ 47,620</u>	<u>\$ 42,951</u>

### Deferred revenue

	April 4, 2019	December 31, 2018	December 31, 2017	January 1, 2017
Credit vouchers	\$ 1,334	\$ 1,598	\$ 2,685	\$ 2,947
Unfulfilled orders	214	32	873	1,213
Allowance for estimated returns	97	99	158	95
Total deferred revenue	<u>\$ 1,645</u>	<u>\$ 1,729</u>	<u>\$ 3,716</u>	<u>\$ 4,255</u>

Credit vouchers relate to vouchers that have been issued or sold to customers. Revenue from credit vouchers is recognized when the vouchers are redeemed, when the likelihood of redemption becomes remote, or when the vouchers expire.

## 7. Expenses by nature

### Fulfillment

Fulfillment costs primarily consist of those costs incurred in operating and staffing the Company's fulfillment, optical lab, and customer service centers, third party fulfillment costs, and payment processing costs. During the period ended April 4, 2019, the Company incurred \$389 (2018: \$1,355; 2017: \$1,013) of shipping expenses, \$86 (2018: \$330; 2017: \$316) of wages, salaries, and benefits, payment processing fees of \$264 (2018: \$901; 2017: \$450).

### Marketing

Marketing costs comprise of advertising and promotion expenses.

### General and administrative

General and administrative expenses consist of payroll and related expenses for employees involved in general corporate functions, costs associated with use by these functions of facilities and equipment, professional fees, technology expenses, and other general corporate costs. During the period ended April 4, 2019, general and administrative expenses consist of a one-time fee related to the acquisition by Kits Eyecare Ltd of \$212 (2018: nil; 2017: nil), professional fees of \$9 (2018: \$336, 2017: \$87), rental expenses of \$18 (2018: \$65; 2017: \$65), technology expenses of \$28 (2018: \$96; 2017: \$89), wages, salaries and benefits of \$156 (2018: \$719; 2017: \$759), foreign exchange loss/(gain) of \$308 (2018: \$376; 2017: \$(260)) and other expenses of \$19 (2018: \$105; 2017: \$75).

## 8. Income taxes

The components of the provision for income tax are as follows:

	For the period / year ended		
	April 4, 2019	December 31, 2018	December 31, 2017
Current tax expense			
Current tax on profits for the year	\$ 300	\$ 2,260	\$ 1,861
Adjustment for current tax of prior periods	-	27	30
Total current tax expense	300	2,287	1,891
Deferred tax expense			
(Decrease)/increase in deferred tax liabilities	(82)	(65)	(43)
Total deferred tax expense (benefit)	(82)	(65)	(43)
Income tax expense	\$ 218	\$ 2,222	\$ 1,848

## Reconciliation of effective tax rate

	For the period / year ended		
	April 4, 2019	December 31, 2018	December 31, 2017
Net income before income taxes	\$ 598	\$ 6,666	\$ 7,204
Combined Canadian statutory income tax rate	26.50%	26.50%	26.50%
Income tax at expected statutory rate	158	1,766	1,909
Tax effect of:			
Non-deductible expenses	16	104	3
Benefits from small business deduction	(18)	(65)	(58)
Effect of foreign exchange on income taxes	44	88	(96)
Part III tax	-	-	62
Dividend refund	2	(2)	(2)
Taxes payable in foreign jurisdictions	16	304	-
Adjustments for current tax of prior periods	-	27	30
Income tax expense	<u>\$ 218</u>	<u>\$ 2,222</u>	<u>\$ 1,848</u>

The following temporary differences and tax losses give rise to deferred income tax assets and liabilities as at:

	April 4, 2019	December 31, 2018	December 31, 2017	January 1, 2017
Property and equipment	\$ (2)	\$ (24)	\$ (25)	\$ (48)
Deferred revenue	110	95	104	84
Other	45	-	(73)	(73)
Net deferred income tax assets (liabilities)	<u>\$ 153</u>	<u>\$ 71</u>	<u>\$ 6</u>	<u>\$ (37)</u>

## 9. Inventory

The Company's inventory balance comprised of finished goods. The amount of inventory recognized as an expense for the period ending April 4, 2019 is \$580 (2018: \$450; 2017: \$113).

## 10. Property and Equipment

	Automobile	Office and computer equipment	Furniture and fixtures	Leasehold improvements	Total
<b>At 1 January 2017</b>					
Cost	\$ 323	\$ 57	\$ 29	\$ 229	\$ 638
Accumulated depreciation	(96)	(31)	(16)	(179)	(322)
<b>Net book value</b>	<u>\$ 227</u>	<u>\$ 26</u>	<u>\$ 13</u>	<u>\$ 50</u>	<u>\$ 316</u>
<b>Year ended December 31, 2017</b>					
Opening net book value	\$ 227	\$ 26	\$ 13	\$ 50	\$ 316
Additions	-	1	9	-	10
Depreciation	(65)	(7)	(3)	(17)	(92)
Exchange differences	(13)	(1)	(1)	(33)	(48)
<b>Net book value at December 31, 2017</b>	<u>\$ 149</u>	<u>\$ 19</u>	<u>\$ 18</u>	<u>\$ -</u>	<u>\$ 186</u>

	Automobile	Office and computer equipment	Furniture and fixtures	Leasehold improvements	Total
<b>At 31 December 2017</b>					
Cost	\$ 301	\$ 54	\$ 36	\$ -	\$ 391
Accumulated depreciation	(152)	(35)	(18)	-	(205)
<b>Net book value</b>	<b>\$ 149</b>	<b>\$ 19</b>	<b>\$ 18</b>	<b>\$ -</b>	<b>\$ 186</b>
<b>Year ended December 31, 2018</b>					
Opening net book value	\$ 149	\$ 19	\$ 18	\$ -	\$ 186
Additions	-	1	1	-	2
Depreciation	(46)	(5)	(3)	-	(54)
Exchange differences	11	-	2	-	13
<b>Net book value at December 31, 2018</b>	<b>\$ 114</b>	<b>\$ 15</b>	<b>\$ 18</b>	<b>\$ -</b>	<b>\$ 147</b>
<b>At 31 December 2018</b>					
Cost	\$ 328	\$ 59	\$ 41	\$ -	\$ 428
Accumulated depreciation	(214)	(44)	(23)	-	(281)
<b>Net book value</b>	<b>\$ 114</b>	<b>\$ 15</b>	<b>\$ 18</b>	<b>\$ -</b>	<b>\$ 147</b>
<b>Period ended April 4, 2019</b>					
Opening net book value	\$ 114	\$ 15	\$ 18	\$ -	\$ 147
Additions	-	1	-	-	1
Disposal	(99)	-	-	-	(99)
Depreciation	(8)	(1)	(1)	-	(10)
Exchange differences	(7)	-	-	-	(7)
<b>Net book value at April 4, 2019</b>	<b>\$ -</b>	<b>\$ 15</b>	<b>\$ 17</b>	<b>\$ -</b>	<b>\$ 32</b>
<b>At 4 April 2019</b>					
Cost	\$ -	\$ 59	\$ 40	\$ -	\$ 99
Accumulated depreciation	-	(44)	(23)	-	(67)
<b>Net book value</b>	<b>\$ -</b>	<b>\$ 15</b>	<b>\$ 17</b>	<b>\$ -</b>	<b>\$ 32</b>

## 11. Leases

Leases of short-term leases are not included in the calculation of lease liabilities. These short-term lease expenses were recognized in general and administrative expenses (Note 7).

## 12. Financial instruments and fair values

The Company characterizes fair value measurements using a hierarchy that prioritizes inputs depending on the degree to which they are observable. The three levels of the fair value hierarchy are as follows:

- Level 1: fair value measurements are quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: fair value measurements are those derived from inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

- Level 3: fair value measurements are those derived from valuation techniques that include significant inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The carrying value of cash and cash equivalents, accounts receivables, accounts payable and accrued liabilities approximate their fair value because of the short-term nature of these financial instruments. These financial instruments are classified as financial assets and liabilities at amortized cost.

The classification of the financial instruments, as well as their carrying values, is shown in the table below:

	April 4, 2019			December 31, 2018		
	Amortized cost (Financial asset)	Amortized cost (Financial liabilities)	Total	Amortized cost (Financial asset)	Amortized cost (Financial liabilities)	Total
Financial assets						
Cash and cash equivalents	\$ 4,401	\$ -	\$ 4,401	\$ 2,898	\$ -	\$ 2,898
Accounts receivables	361	-	361	1,088	-	1,088
Total financial assets	<u>\$ 4,762</u>	<u>\$ -</u>	<u>\$ 4,762</u>	<u>\$ 3,986</u>	<u>\$ -</u>	<u>\$ 3,986</u>
Financial liabilities						
Account payable and accrued liabilities	\$ -	\$ 2,664	\$ 2,664	\$ -	\$ 2,318	\$ 2,318
Total financial liabilities	<u>\$ -</u>	<u>\$ 2,664</u>	<u>\$ 2,664</u>	<u>\$ -</u>	<u>\$ 2,318</u>	<u>\$ 2,318</u>
	December 31, 2017			January 31, 2017		
	Amortized (Financial)	Amortized (Financial)	Total	Amortized (Financial)	Amortized (Financial)	Total
Financial assets						
Cash and cash equivalents	\$ 3,086	\$ -	\$ 3,086	\$ 4,905	\$ -	\$ 4,905
Accounts receivables	1,955	-	1,955	932	-	932
Total financial assets	<u>\$ 5,041</u>	<u>\$ -</u>	<u>\$ 5,041</u>	<u>\$ 5,837</u>	<u>\$ -</u>	<u>\$ 5,837</u>
Financial liabilities						
Account payable and accrued liabilities	\$ -	\$ 1,419	\$ 1,419	\$ -	\$ 1,679	\$ 1,679
Total financial liabilities	<u>\$ -</u>	<u>\$ 1,419</u>	<u>\$ 1,419</u>	<u>\$ -</u>	<u>\$ 1,679</u>	<u>\$ 1,679</u>

### 13. Financial risk management objectives and policies:

The Company's primary risk management objective is to protect the Company's assets and cash flows, in order to increase the Company's enterprise value.

The Company is exposed to capital management risk, market risk, credit risk, and liquidity risk. The Company's senior management and Board of Directors oversee the management of these risks. The Board of Directors reviews and agrees policies for managing each of these risks which are summarized below.

#### Capital management

The Company manages its capital, which consists of equity with the objectives of safeguarding sufficient net working capital over the annual operating cycle and providing sufficient financial resources to grow operations to meet long-term consumer demand. The Company prepares and updates its annual operational results based on the Company's annual/quarterly objectives and

monitors actual operating results compared to the forecast to ensure that there is sufficient capital on hand to grow its operations. The Board of Directors of the Company monitors the Company's capital management on a regular basis. The Company will continually assess the adequacy of the Company's capital structure and capacity, and make adjustments within the context of the Company's strategy, economic conditions, and risk characteristics of the business.

### Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market prices comprise interest rate risk and foreign currency risk.

#### *Currency risks*

The Company's functional currency is the United States Dollar ("USD"). The Company is exposed to fluctuations in the Canadian Dollar ("CAD") relative to its functional currency. The Company has not entered into any agreements or purchased any instruments to hedge possible currency risks at this time.

The Company is exposed to the following currency risk:

	<b>For the period / year ended</b>		
	<b>April 4, 2019</b>	<b>December 31, 2018</b>	<b>December 31, 2017</b>
	<b>CAD</b>	<b>CAD</b>	<b>CAD</b>
Cash and cash equivalents	\$ 4,086	\$ 2,673	\$ 2,439
Accounts receivables	41	134	152
Accounts payable and accrued liabilities	(475)	(376)	(139)
Total	<u>\$ 3,652</u>	<u>\$ 2,431</u>	<u>\$ 2,452</u>

A 10% strengthening in the CAD against the functional currency of the Company (USD) will result in a change in the Company's net income for the period ending April 4, 2019 of \$249 (2018: \$162; 2017: \$177).

### Credit risk

Credit risk refers to the risk that a counterparty may default on its contractual obligations resulting in a financial loss. The Company deals with creditworthy counterparties to mitigate the risk of financial loss from defaults. In addition, the Company does not ship orders to customers until payment has been processed. As such, exposure to customer credit risk is not material.

Account receivables include suppliers' rebates and are expected to settle within 90 days.

### Liquidity risk

Liquidity risk is the risk that the Company will be unable to fulfill its obligations on a timely basis or at a reasonable cost. The Company manages its liquidity risk by monitoring its operating requirements. The Company prepares budget and cash forecasts to ensure it has sufficient funds to fulfill its obligations. The Company continuously reviews both actual and forecasted cash flows to ensure that the Company has appropriate capital capacity.

As at April 4, 2019, the Company does not have long term liabilities and its significant contractual obligations are its accounts payable and accrued liabilities balances that are due within a year.

## 14. Share capital

### Authorized:

- Unlimited Class A, B, C and D common shares, each entitled to 1 vote
- Unlimited Class E, F, G, H special shares, redeemable at \$1 per share, each entitled to 1000 vote
- Unlimited Class I, J, K, L special shares, redeemable at \$1 per share, each entitled to 1 vote
- Unlimited Class M, N, O, P special shares, redeemable at \$1 per share, non-voting

### Issued and outstanding preferred shares and common shares

	April 4, 2019	December 31, 2018	December 31, 2017	January 1, 2017
100 Class A common shares	\$ 1	\$ 1	\$ 1	\$ 1
100 Class B common shares	1	1	1	1
100 Class C common shares	1	1	1	1
940,000 Class E special shares	29	29	29	29
890,000 Class F special shares	28	28	28	28
630,000 Class G special shares	19	19	19	19
500,000 Class I special shares	16	16	16	16
230,000 Class J special shares	7	7	7	7
Total	<u>\$ 103</u>	<u>\$ 103</u>	<u>\$ 103</u>	<u>\$ 103</u>

## 15. Related party transactions

The Company had incurred the following transactions with key management and companies owned by the shareholders: Oak Ridges Visions Center and 186096964 Ontario Inc. These transactions are part of the Company's ordinary course of business.

	Period ended / as at			
	April 4, 2019	December 31, 2018	December 31, 2017	January 1, 2017
<b>Transactions:</b>				
Purchases from Oak Ridges Visions Center (included in Cost of Sales)	\$ 4	\$ 64	\$ 17	\$ -
Rent payment to 186096964 Ontario Inc.	16	65	65	-
Dividend payments to shareholders	-	4,000	5,000	-
Sale of automobiles to key management	99	-	-	-
<b>Balance owing as at:</b>				
Accounts payable to Oak Ridges Vision Center	<u>\$ 23</u>	<u>\$ 53</u>	<u>\$ 13</u>	<u>\$ 28</u>

### Key management compensation

Key management consists of the Board of Directors, the Chief Executive Officer and the executives who report directly to the Chief Executive Officer.

	For the period / year ended		
	April 4, 2019	December 31, 2018	December 31, 2017
Short-term employee benefits	\$ 47	\$ 405	\$ 404
Long-term employee benefits	-	53	53
Total compensation expense	<u>\$ 47</u>	<u>\$ 458</u>	<u>\$ 457</u>

The Company has outstanding accounts payable to key management of \$nil, (December 31, 2018: \$nil, December 31, 2017: \$nil, January 1, 2017: \$nil).

## **16. Contingencies**

The Company is, from time to time, involved in various claims, legal proceedings, and complaints arising in the ordinary course of business. It does not believe that adverse decisions in any pending or threatened proceedings, or any amount it may be required to pay by reason thereof, will have a material adverse effect on the financial condition or future results of operations of the Company.

## **17. Subsequent events**

### **Acquisition by Kits Eyecare Ltd.**

On April 5, 2019, Kits Eyecare Ltd. acquired all the outstanding shares of the Company and pledged all of the equity and assets of the Company as security for Kits Eyecare Ltd.'s loan provided by BDC capital.

### **Impacts of COVID-19 Pandemic**

Subsequent to April 4, 2019, the COVID-19 disease was first identified in December 2019 and the outbreak was declared a pandemic on March 11, 2020 by the World Health Organization. As a result of the pandemic, the Company observed a shift in shopping behavior from traditional brick-and-mortar stores to online shopping, and the Company had benefited from this change in customer habits with an increase in both orders and the onboarding rate for of new customers.

To address the healthy spacing requirements, the Company split its warehouse into two shifts and opened an additional facility. In addition, the Company had some temporary and permanent loss of staff due to quarantines and other COVID-19 related reasons. These factors are resulting in higher operating expenses. These impacts and other potential COVID-related factors could lead to continued changes in revenue and/or profitability that we cannot predict.

## **18. Adoption of IFRS 1**

The effect of the Company's transition to IFRS, described in Note 2, is summarized in this note as follows:

### **Transition elections:**

IFRS 1, which governs the first-time adoption of IFRS, generally requires accounting policies to be applied retrospectively to determine the opening balance sheet on the transition date of January 1, 2019, but allows certain exemptions on the transition to IFRS. Since there were no material transactions that had occurred prior to the transition date, the Company has not chosen to apply for any elections.

**Reconciliation of shareholder's equity as at January 1, 2017 (date of transition to IFRS) and December 31, 2017 and 2018**

	Notes	December 31, 2018	December 31, 2017	January 1, 2017
Shareholders' equity, as previously reported under ASPE		\$ 2,493	\$ 1,119	\$ 880
Translation effect	(a)	(16)	141	6
Recognition of income tax balances	(b)	(428)	(166)	(48)
Recognition of U.S. sales taxes payable	(c)	(30)	-	-
Decongestion of liabilities, recongition of additional inventory and change in timing of revenue recognition	(d)	(434)	(123)	(28)
Shareholders' equity, as reported under IFRS		<u>\$ 1,585</u>	<u>\$ 971</u>	<u>\$ 810</u>

**Reconciliation of comprehensive income for the years ending December 31, 2018 and 2017**

	Notes	December 31, 2018	December 31, 2017
Comprehensive income, previously reported under ASPE		\$ (5,374)	\$ (5,239)
Foreign exchange (loss)/gain	(a)	327	(330)
Translation to reporting currency	(a)	(170)	195
Income tax expense	(b)	262	118
Other expenses	(c)	30	-
Decongestion of liabilities, recongition of additional inventory and change in timing of revenue recognition	(d)	311	95
Comprehensive income under IFRS		<u>\$ (4,614)</u>	<u>\$ (5,161)</u>

**(a) Translation effect**

Under IFRS, the Company must determine its functional currency in order to determine how to reflect items denominated in foreign currencies. The Company has completed this assessment and determined the functional currency to be U.S. dollars with respect to its standalone financial statements.

As the Company's functional currency is different from the Company's presentation currency of the Canadian dollar, the functional currency must be translated into the presentation currency using the current rate method under IFRS for reporting and the Company recognizes a foreign exchange gain/loss on transactions and balances that are denominated that are not in U.S. dollars.

Under ASPE, there is no concept of functional currency and the Company previously recorded transactions using the Canadian dollar.

As of January 1, 2017, the net impact on equity of this adjustment was \$6. For the years ended December 31, 2017 and 2018, \$195 and \$(170) was recorded as other comprehensive income relating to the translation to the Canadian dollar as reporting currency, and \$(330) and \$327 was recorded as foreign exchange (loss)/gain respectively.

**(b) Income tax expense**

Under ASPE, the Company had accounted for income taxes using the taxes payable method. Under IFRS, the Company must recognize the deferred tax balances for all deductible temporary

differences and recognize uncertain tax positions in accordance with IFRIC 23: Uncertainty over Income Tax Treatments.

As of January 1, 2017, the Company had recognized a deferred tax liability of \$48. Movements of the deferred tax liability were recorded as income tax expense of \$118 and \$262 for the years ended December 31, 2017 and 2018 respectively. The Company recognized an additional \$304 of income tax expense for income tax payable for the year ended December 31, 2018.

**(c) Recognition of sales taxes payable**

Under IFRS, the threshold for recognition of provisions is lower than ASPE, resulting in the Company recording a provision for sales tax payable in accounts payable and accrued liabilities. For the year ended December 31, 2018, \$30 of sales tax expense was recorded in other expenses.

**(d) Updates in management's estimates**

The Company had accrued a management bonus of \$275 for the years ended December 31, 2016 and 2017. This accrual was subsequently reversed during the year ended December 31, 2018 as management decided against the payment of the management bonus. As a result, the Company reversed the accrual balance as at January 1, 2017 instead of December 31, 2018.

The net impact of the derecognition of the accrued management bonus as at January 1, 2017 is an increase in retained earnings of \$275 as at January 1, 2017 and December 31, 2017 and an increase in payroll expenses of \$275 for the year ended December 31, 2018.

The Company had recognized a decrease in its weighted average cost of the inventory balance based on updated purchases costs for the year ended December 31, 2018. The net impact of the estimate is an increase in cost of goods sold of \$91 for the year ended December 31, 2019.

The adoption of IFRS 15 – Revenue from contracts with customers resulted in a change in timing of revenue recognition by the Company. The net impact is a decrease in retained earnings of \$316 as at January 1, 2017 and a decrease in revenue of \$95 and \$55 for the years ended December 31, 2017 and 2018 respectively.

**Statement of cash flows**

The impact of the transition to IFRS on the Company's statement of cash flows consisted primarily of reclassifications within the cash generated from (used in) operations as a result of the updated profit and changes in items not affecting cash.

## APPENDIX A – MANDATE OF THE BOARD OF DIRECTORS

### 1. PURPOSE

- 1.1 The board of directors (the "**Board**") of Kits Eyecare Ltd. (the "**Company**") wishes to formalize the guidelines pursuant to which the Board governs the business of the Company. The guidelines are intended to be flexible and are intended to provide parameters and direction to the Board in conjunction with its obligations and mandate to oversee and direct the affairs of the Company.
- 1.2 The Board is responsible for the overall stewardship of the Company and for managing and supervising the management of the Company. The Board does not conduct day-to-day management of the Company. The Board shall at all times act in the best interests of the Company.

### 2. RESPONSIBILITIES

2.1 The Board has the responsibility to:

- (i) satisfy itself, to the extent feasible, as to the integrity of the chief executive officer (the "**CEO**") and other executive officers and that the CEO and other executive officers create a culture of integrity throughout the Company;
- (ii) require management to develop and maintain a strategic planning process which takes into account, among other things, the opportunities and risks of the Company's business and to bring its strategic and operating plans to the Board for review and approval on an annual basis or such other basis as may be required by the Board;
- (iii) approve all capital plans and establish priorities in the allocation of funds for major capital projects on an annual basis or such other basis as may be required by the Board;
- (iv) identify the principal risks of the Company's business and require management to implement appropriate procedures and systems to manage such risks;
- (v) plan for senior management succession, including the appointment of senior management and monitoring of senior management's performance;
- (vi) adopt a communication policy that seeks to ensure that effective communications, including statutory communication and disclosure, are established and maintained with employees, shareholders, the financial community, the media, the community at large and other security holders of the Company;
- (vii) establish procedures to receive feedback from stakeholders of the Company and communications to the independent directors;
- (viii) require management to maintain internal control and management information systems and, through Board committees or otherwise, to monitor these systems as it considers fit;
- (ix) monitor compliance with the Company's code of conduct;
- (x) develop the Company's approach to corporate governance issues and principles practices;
- (xi) require senior management to implement systems to ensure the Company operates within applicable laws and regulations;
- (xii) review actual results achieved by the Company against the objectives contained in the Company's plans and implement or cause to be implemented corrective action where indicated;

- (xiii) arrange for the operating results of the Company to be presented by management to the Board on a regular basis;
- (xiv) require that the Board be kept reasonably informed of the Company's activities and performance and take appropriate action to correct inadequate performance;
- (xv) authorize the issuance of equity and debt securities of the Company;
- (xvi) review and consider all reports and recommendations of the Company's compensation committee ("**Compensation Committee**") and approve all compensation of senior executive officers (including the CEO and named executive officers) and directors;
- (xvii) review the recommendation of the Company's audit committee with respect to the annual financial statements of the Company to be delivered to shareholders. If appropriate, the Board shall approve such financial statements;
- (xviii) require that proper procedures are established for the protection of shareholder value; and
- (xix) ensure policies and procedures are in place to ensure the Company's compliance with applicable law, including timely disclosure of relevant corporate information and regulatory reporting.

2.2 The Board will give direction and guidance to management and will also keep management informed of its evaluation of the performance of the Company and of its senior officers in achieving and carrying out the Board's established goals and policies, and in advising management of any remedial action or changes which it may consider to be necessary.

### **3. ORGANIZATION OF THE BOARD**

3.1 The composition of the Board shall comply with applicable corporate and securities laws.

3.2 At least a majority of the directors shall be "independent" as defined in National Instrument 58-101 – *Disclosure of Corporate Governance Practices*.

3.3 Each year the Board shall review the relationship that each member of the Board has with the Company in order to satisfy itself that the relevant independence criteria have been met.

3.4 The Board may:

- (i) appoint one or more committees of the Board, however designated, and delegate to any such committee any of the powers of the Board except those which pertain to items which, under the *Business Corporations Act* (British Columbia) (the "**Act**"), a committee of the Board has no authority to exercise;
- (ii) appoint a chair of the Board (the "**Chair**") and prescribe his or her powers and duties;
- (iii) appoint a lead director of the Board ("**Lead Director**") and prescribe his or her powers and duties;
- (iv) appoint a CEO and prescribe his or her powers and duties; and
- (v) in conjunction with the CEO, appoint the officers of the Company and prescribe their powers and duties.

3.5 If, and as long as, the Chair is not an independent director, the Board shall appoint, from among its independent members and upon recommendation by its independent members, a Lead Director to hold office until the earlier of: (i) the appointment of an independent Chair; and (ii) the appointment of his or her successor by the Board. A Lead Director shall, if required in accordance with the foregoing, be appointed annually.

- 3.6 The Board may appoint a day or days in any month or months for regular meetings of the Board at a place and hour to be named.
- 3.7 In the event of a change of the status or credentials underlying a Board member's appointment to the Board, the member so affected should, on his or her own initiative, discuss the change with the Chair so that there is an opportunity for the Board to review the continued appropriateness of Board membership under his or her new circumstances. Each case will be dealt with on its own merits, but as a rule, a member of the Board is expected to tender his or her resignation if there is a change in his or her credentials and circumstances that result in his or her candidacy no longer meeting the requirements of Board membership.
- 3.8 Unless specified otherwise, the following procedural rules apply to committees of the Board:
- (i) the Board may appoint one or more committees of the Board, however designated, and delegate to any such committee any of the powers of the Board except those which pertain to items which, under the Act, a committee of the Board has no authority to exercise;
  - (ii) the powers of a committee of the Board may be exercised by a meeting at which a quorum is present or by resolution in writing signed by all members of such committee who would have been entitled to vote on that resolution at a meeting of the committee. Meetings of any such committee may be held at any place in or outside Canada;
  - (iii) the Board may from time to time appoint such advisory bodies as it may deem advisable; and
  - (iv) each committee and advisory body shall have the power to fix its quorum at not less than a majority of its members, to elect its chair, and to regulate its procedure.
- 3.9 The Board shall be composed of between three (3) and seven (7) directors, the number of directors within that range to be fixed by resolution of the Board from time to time. The size of the Board should enable its members to effectively and responsibly discharge their responsibilities to the Company.
- 3.10 Except as set out in the Articles of the Company, Board members shall be elected at the annual meeting of shareholders of the Company each year and shall serve until their successors are duly elected.
- 3.11 The Board shall have adequate resources to discharge its responsibilities. The Chair shall be empowered to engage advisors as may be appropriate from time to time to advise the Chair on the Board with respect to duties and responsibilities.
- 3.12 The Board members are expected to devote the time and attention to the Company's business and affairs necessary to discharge their duties as members of the Board effectively, which include, but are not limited to, attendance at Board meetings and the review of any materials prepared in connection with such meetings. Subject to this requirement, the Board members shall not be subject to any restrictions with respect to their activities outside of their relationship with the Company, including their services as directors of other corporations or charitable organizations so long as such is in accordance with all of the Company's other policies and charters.
- 3.13 The Board shall meet not less than four times per year.
- 3.14 The meetings of the Board shall ordinarily include the CEO (if not a director) and shall periodically include other senior officers as may be appropriate and as may be desirable to enable the Board to become familiar with the Company's management team and affairs.
- 3.15 The Chair shall act as, or appoint a secretary, who shall keep minutes of its meetings in which shall be recorded all actions taken by the Board. Such minutes shall be made available to the directors and shall be approved by the Board for entry in the records of the Company.

- 3.16 Each director is expected to be diligent in preparing for and attending meetings of the Board and any committee of which he or she is a member. A director who is unable to attend a Board or committee meeting may participate by teleconference.
- 3.17 Members of the Board shall have the right, for the purposes of discharging their respective powers and responsibilities, to inspect the relevant records of the Company and its subsidiaries.
- 3.18 Members of the Board, subject to approval of the chair to the Company's nominating and corporate governance committee or Compensation Committee, may retain separate counsel to deal with issues relating to their responsibilities as members of the Board.
- 3.19 If there are any non-management directors who are not independent directors, the independent directors shall have the opportunity to meet at the conclusion of each meeting of the Board with only independent directors present.

## APPENDIX B – AUDIT COMMITTEE CHARTER

### 1. PURPOSE

- 1.1. The audit committee of the Company (the "**Committee**") is ultimately responsible for the policies and practices relating to integrity of financial and regulatory reporting, as well as internal controls to achieve the objectives of safeguarding of corporate assets; reliability of information; and compliance with policies and laws. Within this mandate, the Committee's role is to:
- (a) support the board of directors of the Company (the "**Board**") in meeting its responsibilities to shareholders;
  - (b) enhance the independence of the external auditor;
  - (c) facilitate effective communications between management and the external auditor, and provide a link between the external auditor and the Board; and
  - (d) increase the credibility and objectivity of the Company's financial reports and public disclosure.
- 1.2. The Committee will make recommendations to the Board regarding items relating to financial and regulatory reporting and the system of internal controls following the execution of the Committee's responsibilities as described herein.
- 1.3. The Committee will undertake those specific duties and responsibilities listed below and such other duties as the Board from time to time prescribe.

### 2. MEMBERSHIP

- 2.1. The Committee will consist of at least three directors of the Company, each of whom meets the independence and financial literacy requirements of National Instrument 52-110 – *Audit Committees*, as same may be amended from time to time.
- 2.2. The members of the Committee shall be appointed by the Board. The Committee members may be replaced by the Board, as the Board shall determine from time to time. There shall be a chair of the Committee, who shall be appointed by the Board.

### 3. AUTHORITY

- 3.1. In addition to all authority required to carry out the duties and responsibilities included in this charter, the Committee has specific authority to:
- (a) engage, and set and pay the compensation for independent counsel and other advisors as it determines necessary to carry out its duties and responsibilities;
  - (b) communicate directly with management and any internal auditor;
  - (c) communicate directly with the external auditor without management involvement; and
  - (d) approve annual and interim financial statements and annual and interim management's discussion and analyses on behalf of the Board.
- 3.2. The Committee shall have access to such officers and employees of the Company and to the Company's external auditors, and to such information respecting the Company, as it considers being necessary or advisable in order to perform its duties and responsibilities.

#### 4. DUTIES AND RESPONSIBILITIES

4.1. The overall duties and responsibilities of the Committee shall be as follows:

- (a) to assist the Board in the discharge of its responsibilities relating to the Company's accounting principles, reporting practices and internal controls and its approval of the Company's annual and quarterly consolidated financial statements and related financial disclosure;
- (b) to establish and maintain a direct line of communication with the Company's internal and external auditors and assess their performance;
- (c) to assist the management of the Company in the design, implementation and maintenance of an effective system of internal financial controls; and
- (d) to report regularly to the Board on the fulfillment of its duties and responsibilities.

4.2. The duties and responsibilities of the Committee as they relate to the external auditors shall be as follows:

- (a) to recommend to the Board a firm of external auditors to be engaged by the Company, to recommend the compensation of such external auditors and to verify the independence of such external auditors;
- (b) to pre-approve the retention of an independent auditor for all audit and any non-audit services, including tax services, and the fees for such non-audit services which are provided to the Company or its subsidiary entities;
- (c) to oversee the work of the external auditor in connection with the preparation of an auditor's report or performance of other audit, review or attest services for the Company, including the resolution of disagreements between management and the external auditor regarding financial reporting;
- (d) to review the audit plan of the external auditors prior to the commencement of the audit;
- (e) to review with the external auditors, upon completion of their audit:
  - (i) contents of their report;
  - (ii) scope and quality of the audit work performed;
  - (iii) adequacy of the Company's financial and auditing personnel;
  - (iv) co-operation received from the Company's personnel during the audit;
  - (v) internal resources used;
  - (vi) significant transactions outside of the normal business of the Company;
  - (vii) significant proposed adjustments and recommendations for improving internal accounting controls, accounting principles or management systems;
  - (viii) the non-audit services provided by the external auditors;
  - (ix) to discuss with the external auditors the quality and not just the acceptability of the Company's accounting principles; and

- (x) to implement structures and procedures to ensure that the Committee meets with the external auditors on a regular basis in the absence of management.

4.3. The duties and responsibilities of the Committee as they relate to the Company's internal auditors are to:

- (a) periodically review the internal audit function with respect to the organization, staffing and effectiveness of the internal audit department;
- (b) review and approve the internal audit plan; and
- (c) review significant internal audit findings and recommendations, and management's response thereto.

4.4. The duties and responsibilities of the Committee as they relate to the internal control procedures of the Company are to:

- (a) review the appropriateness and effectiveness of the Company's policies and business practices which impact the financial integrity of the Company, including those relating to internal auditing, insurance, accounting, information services and systems and financial controls, management reporting and risk management;
- (b) review compliance under the Company's business conduct and ethics policies, and to periodically review these policies and recommend to the Board changes which the Committee may deem appropriate;
- (c) review any unresolved issues between management and the external auditors that could affect the financial reporting or internal controls of the Company; and
- (d) periodically review the Company's financial and auditing procedures and the extent to which recommendations made by the internal audit staff or by the external auditors have been implemented.

4.5. The Committee is also charged with the responsibility to:

- (a) review the Company's quarterly statements of earnings, including the impact of unusual items and changes in accounting principles and estimates, and report to the Board with respect thereto;
- (b) review prior to external release, the Company's:
  - (i) annual report to shareholders;
  - (ii) annual information form;
  - (iii) annual and interim management's discussion and analysis;
  - (iv) prospectuses;
  - (v) news releases discussing financial results of the Company; and
  - (vi) other public reports of a financial nature requiring approval by the Board, and report to the Board with respect thereto;
- (c) review regulatory filings and decisions as they relate to the Company's consolidated financial statements;
- (d) review the appropriateness of the policies and procedures used in the preparation of the Company's consolidated financial statements and other required disclosure documents, and consider recommendations for any material change to such policies;

- (e) establish procedures for the receipt, retention, and treatment of complaints regarding accounting, internal controls, or auditing matters as well as procedures for confidential, anonymous submissions by employees regarding questionable accounting or auditing matters as required by applicable law;
- (f) review and approve the Company's hiring policies regarding partners, employees and former partners and employees of the present and former external auditor of the issuer;
- (g) review and report on the integrity of the Company's consolidated financial statements;
- (h) review the minutes of any audit committee meeting of subsidiary companies;
- (i) review with management, the external auditors and, if necessary, with legal counsel, any litigation, claim or other contingency, including tax assessments that could have a material effect upon the financial position or operating results of the Company and the manner in which such matters have been disclosed in the consolidated financial statements;
- (j) review the Company's compliance with regulatory and statutory requirements as they relate to financial statements, tax matters and disclosure of financial information;
- (k) develop a calendar of activities to be undertaken by the Committee for each ensuing year and to submit the calendar in the appropriate format to the Board following each annual general meeting of shareholders; and
- (l) evaluate, annually, the adequacy of this Charter and recommend any proposed changes to the Board.

## **5. MEETINGS**

- 5.1. The quorum for a meeting of the Committee is a majority of the members of the Committee, present in person or by telephone or other telecommunication device that permits all persons participating in the meeting to speak to and hear each other.
- 5.2. The members of the Committee may determine their own procedures.
- 5.3. The Committee may establish its own schedule that it will provide to the Board in advance.
- 5.4. The external auditor is entitled to receive reasonable notice of every meeting of the Committee and to attend and be heard thereat.
- 5.5. A member of the Committee or the external auditor may call a meeting of the Committee.
- 5.6. The Committee will meet separately with the chief executive officer of the Company and separately with the chief financial officer of the Company at least annually to review the financial affairs of the Company.
- 5.7. The Committee will meet with the external auditor of the Company at least once each year, at such time(s) as it deems appropriate, to review the external auditor's examination and report.
- 5.8. The chair of the Committee must convene a meeting of the Committee at the request of the external auditor, to consider any matter that the auditor believes should be brought to the attention of the Board or the shareholders.

## **6. REPORTS**

- 6.1. The Committee will record its recommendations to the Board in written form which will be incorporated as a part of the minutes of the Board's meeting at which those recommendations are presented.

**7. MINUTES**

- 7.1. The Committee will maintain written minutes of its meetings, which minutes will be filed with the minutes of the meetings of the Board.

**CERTIFICATE OF THE ISSUER**

Dated: December 23, 2020

This amended and restated prospectus (which includes the marketing materials included or incorporated by reference) constitutes full, true and plain disclosure of all material facts relating to the securities offered by this amended and restated prospectus as required by the securities legislation of each of the provinces and territories of Canada.

By: /s/ Roger Hardy  
*Chief Executive Officer*

By: /s/ Sabrina Liak  
*Chief Financial Officer*

On Behalf of the Board of Directors

By: /s/ Nick Bozikis  
*Director*

By: /s/ Peter Lee  
*Director*

## CERTIFICATE OF THE AGENTS

Dated: December 23, 2020

To the best of our knowledge, information and belief, this amended and restated prospectus (which includes the marketing materials included or incorporated by reference) constitutes full, true and plain disclosure of all material facts relating to the securities offered by this amended and restated prospectus as required by the securities legislation of each of the provinces and territories of Canada.

### **Canaccord Genuity Corp.**

/s/ Jamie Brown

Name: Jamie Brown

Title: Vice Chairman, Managing Director, Investment Banking

### **CIBC World Markets Inc.**

/s/ Kathy Butler

Name: Kathy Butler

Title: Managing Director & Head, CIBC World Markets - BC

### **Scotia Capital Inc.**

/s/ Rob Sainsbury

Name: Rob Sainsbury

Title: Managing Director & Global Head TMT Corporate & Investment Banking

### **Roth Canada, ULC**

/s/ Jacob Frank

Name: Jacob Frank

Title: Director, Investment Banking

### **Haywood Securities Inc.**

/s/ Mathieu Couillard

Name: Mathieu Couillard

Title: Managing Director, Investment Banking

### **Stifel Nicolaus Canada Inc.**

/s/ Nicholas J. Johnson

Name: Nicholas J. Johnson

Title: Vice Chairman, Head of Energy Investment Banking