

KITS EYECARE LTD.

Condensed Interim Consolidated Financial Statements

For the Three and Nine Months ended September 30, 2021 and September 30, 2020

(in thousands of Canadian Dollars, except share and per share data)

(Unaudited)

KITS EYECARE LTD.**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF INCOME/(LOSS)**

(in thousands of Canadian Dollars, except share and per share data)

(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2021	2020	2021	2020
Revenue (Note 2)	\$ 20,032	\$ 20,201	\$ 62,133	\$ 54,934
Cost of sales	14,835	14,260	47,346	38,282
Gross profit	5,197	5,941	14,787	16,652
Fulfillment	2,741	2,113	8,739	5,374
Marketing	2,866	1,992	11,649	5,370
General and administrative	1,190	780	6,417	2,157
Depreciation and amortization	814	498	1,815	1,504
Operating (loss) income	(2,414)	558	(13,833)	2,247
Finance costs - net	372	525	1,398	2,055
Fair value accrual for Class A and Class C preferred shares	-	-	-	-
(Loss)/income before income taxes	(2,786)	33	(15,231)	192
Income taxes (Note 11)	(649)	165	(4,668)	559
Net (loss) for the period	\$ (2,137)	\$ (132)	\$ (10,563)	\$ (367)
(Loss) per share (Note 12)				
Basic	\$ (0.07)	\$ (0.01)	\$ (0.35)	\$ (0.04)
Diluted	\$ (0.07)	\$ (0.01)	\$ (0.35)	\$ (0.04)

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)

	Three months ended September 30,		Nine months ended September 30,	
	2021	2020	2021	2020
Net (loss) for the period	\$ (2,137)	\$ (132)	\$ (10,563)	\$ (367)
Other comprehensive income for the period:				
Items that may be reclassified to profit or loss				
Currency translation differences	<u>1,076</u>	<u>(1,224)</u>	<u>(57)</u>	<u>803</u>
Total comprehensive (loss) / income for the period	<u>\$ (1,061)</u>	<u>\$ (1,356)</u>	<u>\$ (10,620)</u>	<u>\$ 436</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)

	September 30, 2021	December 31, 2020
		Audited
Assets		
Current assets		
Cash and cash equivalents	\$ 21,119	\$ 2,308
Accounts and other receivables	934	1,109
Inventory (Note 5)	15,352	5,805
Prepays, deposits and other assets	2,390	1,086
Total current assets	39,795	10,308
Property and equipment (Note 6)	3,586	391
Right-of-use asset (Note 7)	6,484	1,176
Deferred tax asset (Note 11)	3,298	210
Intangible assets (Note 13)	4,888	6,127
Goodwill (Note 13)	36,471	36,445
Total assets	<u>\$ 94,522</u>	<u>\$ 54,657</u>
Liabilities and shareholders' equity		
Current liabilities		
Accounts payable and accrued liabilities	\$ 11,314	\$ 10,393
Tax payable	429	397
Deferred revenue (Note 2)	2,345	2,248
Loan (Note 3(a))	3,059	21,322
Lease liability (Note 7)	431	210
Total current liabilities	17,578	34,570
Loan (Note 3(a))	12,048	-
Promissory note (Note 3(b))	1,711	-
Preferred shares (Note 3(b))	-	18,347
Deferred tax liability (Note 11)	-	1,513
Lease liability (Note 7)	5,784	800
Total liabilities	37,121	55,230
Shareholders' equity		
Share capital (Note 8)	75,303	7,324
Contributed surplus (Note 9)	1,556	941
Retained deficit	(17,093)	(6,530)
Accumulated other comprehensive loss	(2,365)	(2,308)
Total shareholders' equity	57,401	(573)
Total liabilities and shareholders' equity	<u>\$ 94,522</u>	<u>\$ 54,657</u>

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

Subsequent events – Note 15

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)	Total
	Common shares		Class B preferred shares					
	Shares	Amount	Shares	Amount				
Balance at December 31, 2019	9,200,000	\$ 3,824	7,000	\$ 3,500	\$ 130	\$ 53	\$ (1,302)	\$ 6,205
Share-based payments	-	-	-	-	504	-	-	504
Net loss and comprehensive income	-	-	-	-	-	(367)	803	436
Balance as at September 30, 2020	9,200,000	\$ 3,824	7,000	\$ 3,500	\$ 634	\$ (314)	\$ (499)	\$ 7,145
Balance at December 31, 2020	9,200,000	\$ 3,824	7,000	\$ 3,500	\$ 941	\$ (6,530)	\$ (2,308)	\$ (573)
Conversion of Class A, B and C preferred shares into common shares (Note 3(b))	15,314,709	19,875	(7,000)	(3,500)	-	-	-	16,375
Shares issued in connection with initial public offering (Note 8)	6,485,294	55,125	-	-	-	-	-	55,125
Shares issuance costs	-	(4,252)	-	-	-	-	-	(4,252)
Share-based payments (Note 9)	-	-	-	-	1,019	-	-	1,019
Shares issued	93,916	312	-	-	-	-	-	312
Option exercise	-	91	-	-	(91)	-	-	-
RSR exercise	39,454	328	-	-	(313)	-	-	15
Net loss and comprehensive loss	-	-	-	-	-	(10,563)	(57)	(10,620)
Balance as at September 30, 2021	31,133,373	\$ 75,303	-	\$ -	\$ 1,556	\$ (17,093)	\$ (2,365)	\$ 57,401

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,	
	2021	2020	2021	2020
Operating activities				
Net loss	\$ (2,137)	\$ (132)	\$ (10,563)	\$ (367)
Items not affecting cash:				
Share-based payments	358	326	1,019	504
Depreciation of property and equipment	405	65	595	183
Amortization of intangible assets	409	433	1,220	1,321
Finance costs	388	522	1,453	2,066
Income taxes	(649)	165	(4,668)	559
Unrealized foreign exchange gain	(189)	(16)	(194)	(159)
Other expense	56	-	43	-
Changes in non-cash operating working capital:				
Accounts receivable	(341)	709	175	100
Inventory	17	(406)	(9,546)	(2,448)
Prepaid expenses and other assets	832	(831)	(1,478)	(913)
Accounts payable and accrued liabilities	(312)	(283)	932	1,897
Deferred revenue	103	(135)	96	(155)
Income tax refund received	150	72	150	72
Cash (used in) / provided by operating activities	(910)	489	(20,766)	2,660
Financing activities				
Repayment of lease obligation	(127)	(150)	(369)	(240)
Repayment of loan (Note 3(a))	(1,035)	(1,104)	(7,788)	(3,403)
Proceeds from issuance of share capital (Note 8)	-	-	55,000	-
Transaction costs of share issuance	-	-	(3,953)	-
Proceeds from exercise of stock options	-	-	313	-
Cash provided by / (used in) financing activities	(1,162)	(1,254)	43,203	(3,643)
Investing activities				
Purchase of property and equipment net of cash proceeds received from disposal	(471)	(32)	(3,499)	(128)
Purchase of intangible assets	-	(34)	-	(34)
Cash used in investing activities	(471)	(66)	(3,499)	(162)
Increase / (decrease) in cash and cash equivalents	(2,543)	(831)	18,938	(1,145)
Foreign exchange effect on cash and cash equivalents	(128)	(247)	(127)	(427)
Cash and cash equivalents, beginning of period	23,790	2,904	2,308	3,398
Cash and cash equivalents, end of period	\$ 21,119	\$ 1,826	\$ 21,119	\$ 1,826

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. Basis of preparation and statement of compliance

Kits Eyecare Ltd. (the "Company") is vertically integrated, digitally native eyecare platform, with sales primarily in the United States and Canada. The Company was 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.

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, 2020 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.

The Company had included Other Expenses within General and Administrative expense from July 1, 2021 onwards and updated its comparatives (three and nine months ended September 30, 2020 Other Expenses were \$157 and \$284 respectively). These Other Expenses pertained to estimated sales taxes payable and estimated bonus fee payable to BDC and were previously separately disclosed. The Company is making this change in classification in order to align and better reflect these expenses within the operating results of the Company. There is no change to consolidated net income or cash flows as a result of this change in classification.

On November 12, 2021, 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 expenses. Actual results may differ from these estimates.

The significant estimates and 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 consolidated 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 an increase in revenues recorded in 2020 and 2021. In addition, the Company incurred additional costs associated with distancing measures, transportation, and logistics. These impacts, the impact of retail stores re-opening, and other potential COVID-related factors could lead to continued changes in revenue and/or profitability that the Company cannot predict.

2. 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.

	Three months ended September 30,		Nine months ended September 30,	
	2021	2020	2021	2020
United States	\$ 14,405	\$ 16,614	\$ 46,219	\$ 45,218
Canada	5,627	3,587	15,914	9,716
Total	\$ 20,032	\$ 20,201	\$ 62,133	\$ 54,934

All of the Company's non-current assets are located in Canada.

Deferred revenue

Deferred revenue consists of credit vouchers of \$659 (December 31, 2020: \$569), unfulfilled orders of \$1,484 (December 31, 2020: \$1,482) and allowance for estimated returns of \$202 (December 31, 2020: \$197). 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.

3. 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. Effective of January 15, 2021, the loan bears interest at BDC floating rate minus 1%, plus a variance of 4.45% per annum and is payable on a monthly basis. As at September 30, 2021, BDC floating rate was 4.55% (2020: 4.55%). 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 the Company. The Company is subject to various covenants under the BDC Loan, including requirements to maintain certain financial ratios. As at September 30, 2021, the loan is in good standing and the Company is in compliance with the debt covenants.

As at September 30, 2021, the carrying amount of the loan is \$15,107 (2020: \$21,322). The Company made a prepayment of \$4,500 in January 2021 towards the BDC loan principal. The repayment schedule of the loan was revised accordingly to reflect this prepayment and the balloon payment was reduced by the prepayment amount and the Company recognized a modification loss of \$590 due to the change in repayment schedule of the loan and \$135 of prepayment penalties in finance costs. For the three and nine months ended September 30, 2021, the Company recognized \$269 and \$852 (2020: \$365 and \$1,206) of interest expense in finance costs. Interest expense is calculated by applying the effective interest rate of 6.95% (2020: 6.95%).

(b) Preferred shares and Promissory note

As at September 30, 2021, there are no longer any preferred shares outstanding. On January 18, 2021, the Company issued 15,314,709 common shares in connection with the conversion of all the Company's Class A, B and C preferred shares (total par value of \$17,300) and a promissory note of \$2,412 which are the accrued dividends payable to the holders of the preferred shares. The note bears no interest and matures on the earlier of January 31, 2026 or the date after the Company's current loan from BDC has been repaid in full (the "Maturity Date"). Unpaid principal shall be payable in quarterly installments beginning on March 31, 2021 of \$121, subject to the consent of BDC. Any unpaid principal shall be payable in full upon the Maturity Date.

The fair value of the promissory note at initial recognition is \$1,621 and the Company recognized a gain on extinguishment of \$350 (2020: \$nil) from its preferred share liabilities in finance costs. During the three and nine months ended September 30, 2021, no quarterly principal was paid to the promissory holders and the Company recorded accretion expense of \$33 and \$90 (2020: \$nil and \$nil) in finance costs. Accretion expense is calculated by applying the effective interest rate of 8.00%.

4. Financial instruments and fair values

The Company determines 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 loan and promissory note are classified as financial liabilities at amortized costs. The fair value of these financial liabilities is disclosed in the table below.

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, 2021 and December 31, 2020.

	September 30, 2021			December 31, 2020		
	Carrying value	Level 2	Level 3	Carrying value	Level 2	Level 3
Financial liabilities						
Class A and Class C preferred shares	\$ -	\$ -	\$ -	\$ 14,049	\$ -	\$ 14,049
Loan	15,107	14,687	-	21,322	21,457	-
Promissory note	1,711	1,688	-	-	-	-
Class B preferred shares (dividends payable component)	-	-	-	4,298	-	4,298
Total	\$ 16,818	\$ 16,375	\$ -	\$ 39,669	\$ 21,457	\$ 18,347

During the three and nine months ended September 30, 2021, 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, 2021 and December 31, 2020 is shown in the table below.

	September 30, 2021				December 31, 2020			
	Amortized cost (Financial asset)	Amortized cost (Financial liabilities)	FVTPL	Total	Amortized cost (Financial asset)	Amortized cost (Financial liabilities)	FVTPL	Total
Financial assets								
Cash and cash equivalents	\$ 21,119	\$ -	\$ -	\$ 21,119	\$ 2,308	\$ -	\$ -	\$ 2,308
Accounts and other receivables	697	-	-	697	1,001	-	-	1,001
Total financial assets	<u>\$ 21,816</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 21,816</u>	<u>\$ 3,309</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,309</u>
Financial liabilities								
Account payable and accrued liabilities	\$ -	\$ 11,314	\$ -	\$ 11,314	\$ -	\$ 10,393	\$ -	\$ 10,393
Loan	-	15,107	-	15,107	-	21,322	-	21,322
Promissory note	-	1,711	-	1,711	-	-	-	-
Class A and Class C preferred shares	-	-	-	-	-	-	14,049	14,049
Class B preferred shares (dividends payable component)	-	-	-	-	-	4,298	-	4,298
Total financial liabilities	<u>\$ -</u>	<u>\$ 28,132</u>	<u>\$ -</u>	<u>\$ 28,132</u>	<u>\$ -</u>	<u>\$ 36,013</u>	<u>\$ 14,049</u>	<u>\$ 50,062</u>

Valuation techniques and significant unobservable inputs

To determine the fair value of financial liabilities at initial recognition, the Company considered the present value of expected payments, discounted using a risk-adjusted discount rate. As at September 30, 2021, none of the Company's financial liabilities are subsequently measured at fair value after initial recognition.

Capital management

The Company manages its capital, which consists of equity and long-term debt 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.

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 \$15,107 as at September 31, 2021 (December 31, 2020: \$20,400) which currently bears interest at 8.0% (December 31, 2020: 6.5%). For the nine months ended September 30, 2021, a 1.00% increase in the floating interest rate would have increased interest paid by \$85 (December 31, 2020: \$169) and interest expense by \$8 (December 31, 2020: \$104).

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 USD and the 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 as at September 30, 2021:

	September 30, 2021		December 31, 2020	
	USD	CAD	USD	CAD
Cash and cash equivalents	\$ 1	\$ 419	\$ 4	\$ 230
Accounts and other receivables	-	577	-	429
Accounts payable and accrued liabilities	-	(3,928)	-	(3,339)
Total	\$ 1	\$ (2,932)	\$ 4	\$ (2,680)

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 \$266 (December 31, 2020: \$244) on net income.

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.

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 30 September 2021.

Contractual obligations	Contractual cash	Less than 1	1-3 years	4-5 years	After 5 years
	flows	year			
Accounts payable and accrued liabilities	\$ 11,314	\$ 11,314	\$ -	\$ -	\$ -
Loan - Principal amount	15,136	3,000	6,000	6,136	-
Loan - Interest	2,530	982	1,244	304	-
Promissory note	2,412	-	-	2,412	-
Lease liability	9,174	892	1,856	1,707	4,719
	<u>\$ 40,566</u>	<u>\$ 16,188</u>	<u>\$ 9,100</u>	<u>\$ 10,559</u>	<u>\$ 4,719</u>

5. Inventory

As at September 30, 2021, inventory comprised of \$8,336 (2020: \$4,552) of contact lenses, \$5,881 (2020: \$1,051) of frames and prescription lenses of \$752 (2020: \$157) and other miscellaneous inventory of \$383 (2020: \$45).

6. Property and equipment

During the nine months ended September 30, 2021, the Company had property and equipment additions of \$3,506, disposed of \$64 of property and equipment, received \$7 of cash proceeds from disposal, recognized depreciation expense of \$306 (2020: \$87) and recorded \$59 exchange differences. The majority of the change in property and equipment pertains to equipment and store leasehold improvements.

7. Leases

The Company entered into a lease agreement to lease a new warehouse facility. The new warehouse facility lease commenced on July 1, 2021 and includes escalating rent payments and an initial seven-year term. The

Company recognized \$5,103 of right-of-use asset and lease liability related to the new warehouse facility lease. The Company early terminated its previous warehouse facility lease agreement that had a remaining 15 months and derecognized the right of use assets and liabilities associated with the previous lease.

During the nine months ended September 30, 2021, the Company had \$5,529 of lease liability additions, paid \$369 of lease payments, and recognized \$136 (2020: \$42) of accretion expense, \$10 of foreign exchange gain and \$81 of early termination expense.

During the nine months ended September 30, 2021, the Company had \$5,529 of right-of-use asset additions, disposed of \$68 right-of-use assets, recognized depreciation expense of \$289 (2020: \$96) and incurred \$136 of foreign exchange gain.

8. Share capital

On January 18, 2021, the Company issued 15,314,709 common shares in connection with the conversion of all the Company's Class A, B and C preferred shares (Note 3(b)). As at September 30, 2021, there are no longer any preferred shares outstanding.

On January 19, 2021, the Company completed its oversubscribed and upsized initial public offering (the "IPO") and listing on the Toronto Stock Exchange ("TSX"). The IPO consisted of the issuance of 6,470,588 common shares of the Company (the "Shares") at a price of \$8.50 per Share (the "Offering Price") for gross proceeds of \$55,000. In connection with the completion of the IPO, the Company issued 14,706 common shares and paid \$125 in cash to listing agents. In addition, the agents exercised 50% of their over-allotment option in a transaction that closed on February 5, 2021. During the three and nine months ended September 30, 2021, the Company recorded \$nil and \$4,252 of share issuance costs (2020: \$nil and \$nil).

During the nine months ended September 30, 2021, 93,916 stock options were exercised at a weighted average exercise price of \$3.33 and 39,454 restricted shares rights ("RSRs") were delivered to its officers and directors.

9. Share-based compensation

During the nine months ended September 30, 2021, the Company granted 42,166 RSRs to its officers and directors which vest immediately upon grant. The RSRs have a weighted fair value of \$6.98 which is the Company's average share price for the period the services were provided. As at September 31, 2021, the Company has a total 38,961 of outstanding RSRs, comprising of 23,528 of non-vested RSRs.

During the nine months ended September 30, 2021, the Board of Directors approved an option grant by the Company of 246,330 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 \$7.77, a term of 7 years and vest over 3 years. The weighted average fair value of the options issued was estimated at \$6.39 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 1.34%, a dividend yield of 0% and an expected volatility of 100%.

During the nine months ended September 30, 2021, 19,233 stock options were forfeited at a weighted average exercise price of \$7.67. As at September 30, 2021, the Company has a total of 2,369,241 of stock options outstanding with a weighted average exercise price of \$3.33, comprising of 1,400,396 of exercisable stock options with a weighted average exercise price of \$2.79.

Share-based compensation expense related to stock options and RSRs of \$358 and \$1,019 (2020: \$326 and \$504) was recorded for the three and nine months ended September 30, 2021, respectively.

10. Related party transactions

During the three and nine months ended September 30, 2021, the Company paid rent of \$19 and \$56 (2020: \$19 and \$57) to a company under common control of a major shareholder of the Company and paid rent of \$30 and \$88 (2020: \$30 and \$90) to a company under common control of another major 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 was no purchased inventory from a company under common control of a major shareholder of the Company during the three and nine months ended September 2021 (2020: \$56 and \$56).

During the three and nine months ended September 30, 2021, the Company recorded \$44 and \$97 (2020: \$nil and \$nil) of Board fees and advisory fees to its directors (the "Directors") and \$50 and \$150 of share-based compensation (2020: \$nil and \$nil). \$44 of Board fees remain unpaid as at September 30, 2021.

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. Key management compensation comprises of wages and short-term employee benefits. For the three and nine months ended September 30, 2021, the Company paid \$414 and \$1,041 (2020: \$179 and \$544) of wages and short-term employee benefits to key management and recorded \$266 and \$738 (2020: \$165 and \$252) of key management share-based compensation.

11. Income taxes

The Company calculates the period income tax expense using the tax rate that would be applicable to the expected total annual earnings. The major components of income tax expense in the interim condensed consolidated statement of income/(loss) for the three and nine months ended September 30, 2021 comprises of current income tax expense of \$5 and current income tax recovery of \$(122) (2020: \$131 and \$749) and deferred income tax recovery of \$(654) and (\$4,546) (2020: \$34 and \$(190)).

As at September 30, 2021, deferred tax assets consist of available non-capital losses and other tax deductions of \$4,674 (2020: \$216), net of deferred tax liability arising from property and equipment, right of use assets and net of lease liability of \$288 (2020: \$98) and intangible assets of \$1,088 (2020: \$1,421). The Company has non-capital losses of approximately \$12,690 (2020: \$nil) that can be applied against future years' taxable income for Canadian income tax purposes. The Company has recognized these losses as a deferred income tax asset as it expects to utilize these losses against future taxable income.

12. Loss per share

Weighted average number of ordinary shares used as the denominator in calculating basic and diluted earnings per share for the three and nine months ended September 30, 2021 is 31,131,320 and 29,778,978 (2020: 9,200,000 and 9,200,000).

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 of the Company.

13. Goodwill and intangible assets

During the nine months ended September 30, 2021, the Company recognized \$1,220 of amortization expenses, and \$7 of foreign exchange gain. The Company exercises judgement to determine whether there is an impairment indicator requiring an impairment test for its goodwill and indefinite life intangible assets to be completed. As at September 30, 2021, no impairment indicators exist.

14. 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.

15. Subsequent Events

On October 16, 2021, the Company issued 7,844 common shares to settle 7,844 vested RSUs.

On November 8, 2021, the Company granted 42,100 share options to its employees that expire seven years after initial grant date, subject to a vesting schedule and the terms of the Company's option plan.

The Company entered into a commitment to lease two pieces of equipment. The lease commenced on October 25, 2021, with a monthly lease payment of \$13 for a lease term of 6 years.