

**KITS EYECARE LTD.**

Condensed Interim Consolidated Financial Statements

For the Three and Nine Months ended September 30, 2022 and September 30, 2021

(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,	
	2022	2021	2022	2021
Revenue (Note 3)	\$ 23,578	\$ 20,032	\$ 65,400	\$ 62,133
Cost of sales	16,365	14,835	45,057	47,346
Gross profit	7,213	5,197	20,343	14,787
Fulfillment	3,156	2,741	9,124	8,739
Marketing	3,346	2,866	9,374	11,649
General and administrative	2,124	1,845	6,013	7,133
Exchange (gain)/loss	(2,156)	(655)	(2,733)	(716)
Depreciation and amortization	577	814	1,695	1,815
Operating income (loss)	166	(2,414)	(3,130)	(13,833)
Finance costs - net	396	372	1,185	1,398
Income (Loss) before income taxes	\$ (230)	\$ (2,786)	\$ (4,315)	\$ (15,231)
Income taxes (Note 12)	(250)	(649)	(1,148)	(4,668)
Net income (loss) for the period	\$ 20	\$ (2,137)	\$ (3,167)	\$ (10,563)
Income (Loss) per share (Note 13)				
Basic	\$ 0.00	\$ (0.07)	\$ (0.10)	\$ (0.35)
Diluted	\$ 0.00	\$ (0.07)	\$ (0.10)	\$ (0.35)

*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>2022</b>	<b>2021</b>	<b>2022</b>	<b>2021</b>
Net income (loss) for the period	\$ 20	\$ (2,137)	\$ (3,167)	\$ (10,563)
Other comprehensive income for the period:				
Items that may be reclassified to profit or loss				
Currency translation differences	<u>1,984</u>	<u>1,076</u>	<u>2,546</u>	<u>(57)</u>
Total comprehensive income (loss) for the period	<u>\$ 2,004</u>	<u>\$ (1,061)</u>	<u>\$ (621)</u>	<u>\$ (10,620)</u>

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**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, 2022</b>	<b>December 31, 2021</b>
		<b>Audited</b>
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 20,402	\$ 20,505
Accounts and other receivables	739	440
Inventory (Note 6)	12,315	13,485
Tax receivable	20	421
Prepays, deposits and other assets	498	860
Total current assets	33,974	35,711
Property and equipment (Note 7)	3,086	3,423
Right-of-use asset (Note 8)	7,501	7,511
Deferred tax asset (Note 12)	4,954	3,552
Intangible assets (Note 14)	3,409	4,456
Goodwill (Note 14)	39,236	36,291
Total assets	<u>\$ 92,160</u>	<u>\$ 90,944</u>
<b>Liabilities and shareholders' equity</b>		
Current liabilities		
Accounts payable and accrued liabilities	\$ 13,310	\$ 10,298
Tax payable	427	395
Deferred revenue (Note 3)	2,954	2,526
Loan (Note 4(a))	3,111	3,051
Lease liability (Note 8)	607	552
Total current liabilities	20,409	16,822
Loan (Note 4(a))	8,932	11,291
Promissory note (Note 4(b))	1,848	1,744
Lease liability (Note 8)	5,831	6,302
Total liabilities	<u>37,020</u>	<u>36,159</u>
<b>Shareholders' equity</b>		
Share capital (Note 9)	76,929	76,592
Contributed surplus (Note 10)	2,576	1,937
Retained deficit	(24,314)	(21,147)
Accumulated other comprehensive loss	(51)	(2,597)
Total shareholders' equity	<u>55,140</u>	<u>54,785</u>
Total liabilities and shareholders' equity	<u>\$ 92,160</u>	<u>\$ 90,944</u>

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

*Contingencies – Note 15*

*Subsequent Event – Note 16*

**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 (deficit)	Accumulated other comprehensive (loss)	Total
	Common shares		Class B preferred shares					
	Shares	Amount	Shares	Amount				
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 4(b), 9)	15,314,709	19,875	(7,000)	(3,500)	-	-	-	16,375
Shares issued in connection with initial public offering (Note 9)	6,485,294	55,125	-	-	-	-	-	55,125
Shares issuance costs	-	(4,252)	-	-	-	-	-	(4,252)
Share-based payments (Note 10)	-	-	-	-	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
Balance at December 31, 2021	31,156,380	\$ 76,592	-	\$ -	\$ 1,937	\$ (21,147)	\$ (2,597)	\$ 54,785
Share-based payments (Note 10)	-	-	-	-	976	-	-	976
RSR exercise (Note 9)	130,170	337	-	-	(337)	-	-	-
Net (loss) and comprehensive income	-	-	-	-	-	(3,167)	2,546	(621)
Balance as at September 30, 2022	31,286,550	\$ 76,929	-	\$ -	\$ 2,576	\$ (24,314)	\$ (51)	\$ 55,140

*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,	
	2022	2021	2022	2021
Operating activities				
Net Income (Loss)	\$ 20	\$ (2,137)	\$ (3,167)	\$ (10,563)
Items not affecting cash:				
Share-based payments (Note 10)	308	358	976	1,019
Depreciation of property and equipment and right-of-use assets (Note 7, 8)	460	405	1,347	595
Amortization of intangible assets (Note 14)	424	409	1,251	1,220
Finance costs (Note 4, 8)	422	388	1,237	1,453
Income taxes	(250)	(649)	(1,148)	(4,668)
Unrealized foreign exchange (gain)	(385)	(189)	(485)	(194)
Other expense	-	56	-	43
Changes in non-cash operating working capital:				
Accounts receivable	(440)	(341)	(299)	175
Inventory	1,041	17	1,170	(9,546)
Prepaid expenses and other assets	267	832	362	(1,478)
Accounts payable and accrued liabilities	1,014	(312)	3,012	932
Deferred revenue	570	103	428	96
Income tax refund received	401	150	401	150
<b>Cash provided by / (used in) by operating activities</b>	<b>3,852</b>	<b>(910)</b>	<b>5,085</b>	<b>(20,766)</b>
Financing activities				
Repayment of lease obligation (Note 8)	(269)	(127)	(794)	(369)
Repayment of loan (Note 4(a))	(1,029)	(1,035)	(3,039)	(7,788)
Proceeds from issuance of share capital (Note 9)	-	-	-	55,000
Transaction costs of share issuance	-	-	-	(3,953)
Proceeds from exercise of stock options	-	-	-	313
<b>Cash provided by / (used in) financing activities</b>	<b>(1,298)</b>	<b>(1,162)</b>	<b>(3,833)</b>	<b>43,203</b>
Investing activities				
Purchase of property and equipment (Note 7)	(88)	(471)	(197)	(3,499)
<b>Cash used in investing activities</b>	<b>(88)</b>	<b>(471)</b>	<b>(197)</b>	<b>(3,499)</b>
<b>Increase / (decrease) in cash and cash equivalents</b>	<b>2,466</b>	<b>(2,543)</b>	<b>1,055</b>	<b>18,938</b>
Foreign exchange effect on cash and cash equivalents	(955)	(128)	(1,158)	(127)
Cash and cash equivalents, beginning of period	18,891	23,790	20,505	2,308
<b>Cash and cash equivalents, end of period</b>	<b>\$ 20,402</b>	<b>\$ 21,119</b>	<b>\$ 20,402</b>	<b>\$ 21,119</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 Interim Consolidated Financial Statements**

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

(Unaudited)

#### **1. Nature of operations**

Kits Eyecare Ltd. (the "Company" or "KITS") 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 is listed on the Toronto Stock Exchange (the "TSX") under the symbol "KITS".

#### **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 consolidated financial statements for the year ended December 31, 2021 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 condensed interim consolidated financial statements.

From July 1, 2022 onwards, the Company had presented Exchange gain/loss separately with its comparatives which was previously included within General and Administrative expense. 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 8, 2022, the Board of Directors authorized these condensed interim consolidated financial statements for issuance.

#### **Critical accounting estimates and judgements**

In preparing these condensed interim consolidated 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 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 annual consolidated financial statements.

#### **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.

	Three months ended September 30,		Nine months ended September 30,	
	2022	2021	2022	2021
United States	\$ 16,206	\$ 14,405	\$ 45,047	\$ 46,219
Canada and other	7,372	5,627	20,353	15,914
Total	<u>\$ 23,578</u>	<u>\$ 20,032</u>	<u>\$ 65,400</u>	<u>\$ 62,133</u>

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

#### Deferred revenue

Deferred revenue consists of credit vouchers of \$887 (December 31, 2021: \$522), unfulfilled orders of \$1,597 (December 31, 2021: \$1,802) and allowance for estimated returns of \$470 (December 31, 2021: \$202). 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.

#### Revenue by product

	Three months ended September 30,		Nine months ended September 30,	
	2022	2021	2022	2021
Contact Lenses	\$ 20,408	\$ 18,277	\$ 56,807	\$ 56,875
Glasses	3,170	1,755	8,593	5,258
Total	<u>\$ 23,578</u>	<u>\$ 20,032</u>	<u>\$ 65,400</u>	<u>\$ 62,133</u>

## 4. Financial liabilities

### (a) Loan

The Company entered into a secured loan agreement for \$23.4 million with BDC Capital Inc. ("BDC"), part of the Business Development Bank of Canada, on March 26, 2019, with a repayment date of April 15, 2026. The loan bears interest at BDC floating rate plus a spread and is payable on a monthly basis. As at September 30, 2022, interest rate was 11.0% (2021: 9.0%). 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, 2022, the loan is in good standing and the Company is in compliance with the debt covenants.

As at September 30, 2022, the carrying amount of the loan is \$12,043 (2021: \$14,342). For the three and nine months ended September 30, 2022, the Company made interest and principal repayments of \$1,029 and \$3,039 (2021: \$1,035 and \$7,788) and recognized \$262 and \$741 (2021: \$269 and \$852) of accretion expense in finance costs. Accretion expense is calculated by applying the effective interest rate of 8.92% (2021: 6.95%).

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 nine months ended September 30, 2021.

### (b) Promissory note

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 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 Capital 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 Capital. 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 from its preferred share liabilities in finance costs for the nine months ended September 30, 2021.

As at September 30, 2022, the carrying value of the promissory note is \$1,848 (2021: \$1,744). During the three and nine months ended September 30, 2022, no quarterly principal was paid to the promissory holders and the Company recorded accretion expense of \$35 and \$103 (2021: \$33 and \$90) in finance costs. Accretion expense is calculated by applying an effective interest rate of 8.00%.

## 5. 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, and 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.

There are no financial liabilities that are measured at fair value. The following table shows the carrying amounts and the fair values of financial liabilities, including their levels in the fair value hierarchy.

	September 30, 2022			December 31, 2021		
	Carrying value	Level 2	Level 3	Carrying value	Level 2	Level 3
Financial liabilities						
Loan	\$ 12,043	\$ 11,541	\$ -	\$ 14,342	\$ 13,958	\$ -
Promissory note	1,848	1,828	-	1,744	1,722	-
Total	\$ 13,891	\$ 13,369	\$ -	\$ 16,086	\$ 15,680	\$ -

During the three and nine months ended September 30, 2022, 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, 2022 and December 31, 2021 is shown in the table below.

	September 30 2022				December 31, 2021			
	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	\$ 20,402	\$ -	\$ -	\$ 20,402	\$ 20,505	\$ -	\$ -	\$ 20,505
Accounts and other receivables	668	-	-	668	440	-	-	440
Total financial assets	\$ 21,070	\$ -	\$ -	\$ 21,070	\$ 20,945	\$ -	\$ -	\$ 20,945
<b>Financial liabilities</b>								
Account payable and accrued liabilities	\$ -	\$ 13,310	\$ -	\$ 13,310	\$ -	\$ 10,298	\$ -	\$ 10,298
Loan	-	12,043	-	12,043	-	14,342	-	14,342
Promissory note	-	1,848	-	1,848	-	1,744	-	1,744
Total financial liabilities	\$ -	\$ 27,201	\$ -	\$ 27,201	\$ -	\$ 26,384	\$ -	\$ 26,384

### 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, 2022, 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 cash and cash equivalents and 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 \$10,650 as at September 30, 2022 (December 31, 2021: \$12,900) which currently bears interest at 11.00% (December 31, 2021: 8.00%). For the nine months ended September 30, 2022, a 1.00% increase in the floating interest rate would have increased interest paid by \$84 (December 31, 2021: \$118) and finance costs by \$77 (December 31, 2021: \$126).

### 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, 2022:

	September 30 2022		December 31, 2021	
	USD	CAD	USD	CAD
Cash and cash equivalents	\$ -	\$ 2,017	\$ 1	\$ 2,171
Accounts and other receivables	-	309	-	184
Accounts payable and accrued liabilities	-	(5,997)	-	(4,587)
Total	\$ -	\$ (3,671)	\$ 1	\$ (2,232)

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 favorable impact of \$372 (December 31, 2021: \$203) on net loss.

#### **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 does have some receivables exposure with respect to payment processors transferring customer funds to the Company and to rebates receivable from the Company's vendors. The majority of accounts receivables are settled in under 30 days. In order to reduce this risk, the Company uses industry leading payment processors, including Braintree Payment Gateway, 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 credit risk is nominal.

#### **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 September 30, 2022.

#### **September 30, 2022**

<b>Contractual obligations</b>	<b>Carrying amount</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	\$ 13,310	\$ 13,310	\$ 13,310	\$ -	\$ -	\$ -
Loan - Principal amount	12,043	11,957	3,000	6,000	2,957	-
Loan - Interest	-	2,141	1,021	1,050	70	-
Promissory note	1,848	2,412	-	-	2,412	-
	<u>\$ 27,201</u>	<u>\$ 29,820</u>	<u>\$ 17,331</u>	<u>\$ 7,050</u>	<u>\$ 5,439</u>	<u>\$ -</u>

#### **6. Inventory**

As at September 30, 2022, inventory comprised of \$5,150 (2021: \$5,267) of contact lenses, \$5,775 (2021: \$5,929) of frames, prescription lenses of \$757 (2021: \$689) and other miscellaneous inventory of \$633 (2021: \$1,600).

#### **7. Property and equipment**

During the nine months ended September 30, 2022, the Company had property and equipment additions of \$197 (2021: \$3,506), disposed of \$nil (2021: \$64) of property and equipment, received \$nil (2021: \$7) of cash proceeds from disposal, recognized depreciation expense of \$772 (2021: \$306) and recorded \$238 (2021: \$59) exchange differences.

## **8. Leases**

During the nine months ended September 30, 2022, the Company had \$23 (2021: \$5,529) of lease liability additions, paid \$794 (2021: \$369) of lease payments, recognized \$393 (2021: \$136) of accretion expense, a lease modification gain of \$nil (2021: \$81) and \$38 (2021: \$10) of foreign exchange gain.

During the nine months ended September 30, 2022, the Company had \$23 (2021: \$5,529) of right-of-use asset additions, \$nil of right-of-use assets modification (2021: \$68), recognized depreciation expense of \$575 (2021: \$289) and incurred \$541 (2021: \$136) of exchange differences.

## **9. 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 4(b)). As of 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 overallocation option in a transaction that closed on February 5, 2021. During the nine months ended September 30, 2022, the Company recorded \$nil of share issuance costs (2021: \$4,252).

During the nine months ended September 30, 2022, 130,170 (2021: 39,454) vested RSRs were delivered to its officers, directors and employees and nil options were exercised (2021: 93,916).

## **10. Share-based compensation**

During the nine months ended September 30, 2022, the Company granted 66,892 restricted shares rights ("RSRs") to its directors and employees which vest immediately upon grant. The RSRs have a weighted fair value of \$2.49 which is the Company's average share price for the period the services were provided. As at September 30, 2022, the Company has a total 37,742 of outstanding RSRs, comprising of 15,684 of non-vested RSRs.

On March 30, 2022, the Board of Directors approved an option grant by the Company of 492,500 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 \$2.60, a term of 7 years and vest over 3 years. The weighted average fair value of the options issued was estimated at \$1.60 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 1.73% or 1.79%, a dividend yield of 0% and an expected volatility of 100%.

During the nine months ended September 30, 2022, 45,100 stock options were forfeited at a weighted average exercise price of \$3.93. As at September 30, 2022, the Company has a total of 2,847,224 of stock options outstanding with a weighted average exercise price of \$3.17, comprising of 2,167,595 of exercisable stock options with a weighted average exercise price of \$2.96.

Share-based compensation expense related to stock options and RSRs of \$308 and \$976 (2021: \$358 and \$1,019) was recorded for the three months and nine months ended September 30, 2022, respectively.

## 11. Related party transactions

During the three and nine months ended September 30, 2022, the Company recorded rent of \$19 and \$58 (2021: \$19 and \$56) to a company under common control of a significant shareholder of the Company, of which \$14 is unpaid as at September 30, 2022 and paid rent of \$30 and \$90 (2021: \$30 and \$88) to a company under common control of another significant shareholder of the Company, of which \$21 is unpaid as at September 30, 2022. 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, 2022, the Company recorded \$31 and \$68 (2021: \$44 and \$97) of Board fees to its directors (the "Directors") and \$56 and \$156 (2021: \$50 and \$150) of share-based compensation. \$48 of Board fees remain unpaid as at September 30, 2022.

### *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 employee benefits. For the three and nine months ended September 30, 2022, the Company paid \$400 and \$1,200 (2021: \$414 and \$1,041) of wages and employee benefits to key management and recorded \$181 and \$588 (2021: \$266 and \$738) of key management share-based compensation.

## 12. 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 condensed interim consolidated statement of income/(loss) for the three and nine months ended September 30, 2022 comprises of current income tax expense of \$nil and \$nil (2021: income tax expense/(recovery) of \$5 and \$(122)) and deferred income tax recovery of \$250 and \$1,148 (2021: \$654 and \$4,546).

As at September 30, 2022, deferred tax assets consist of available non-capital losses and other tax deductions of \$6,679 (2021: \$5,561), net of deferred tax liability arising from property and equipment, right of use assets and net of lease liability of \$1,034 (2021: \$1,037) and intangible assets of \$691 (2021: \$972). The Company has non-capital losses of approximately \$22,199 (2021: \$16,063) 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.

## 13. 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, 2022 is 31,283,213 and 31,261,874 (2021: 31,131,320 and 29,778,978).

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.

## 14. Goodwill and intangible assets

During the nine months ended September 30, 2022, the Company recognized \$1,251 (2021: \$1,220) of amortization expenses, and \$3,149 (2021: \$7) of exchange differences. 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, 2022, no impairment indicators exist.

**15. Contingencies**

The Company is, from time to time, involved in various claims, legal proceedings and complaints arising in the ordinary course of business. The Company 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.

**16. Subsequent Event**

On November 8, 2022, the Company granted 37,250 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. 13,332 share options were forfeited.