

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2022

The following Management's Discussion and Analysis ("MD&A") dated November 8, 2022 provides information concerning the financial condition and results of operations of Kits Eyecare Ltd. (together with its consolidated subsidiaries, referred to herein as "KITS", the "Company", "we", "us" or "our"). This MD&A should be read in conjunction with our unaudited condensed interim consolidated financial statements for the three and nine months ended September 30, 2022 and September 30, 2021, including the related notes thereto. 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 discussed below, particularly under "Forward-Looking Information" and "Risk Factors". Unless otherwise noted, all dollar amounts in this MD&A are in C\$'000s.

Forward-Looking Information

This MD&A 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.

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 risk factors described in greater detail in the Company's annual information form for the year ended December 31, 2021, which was filed on March 9, 2022 (the "AIF"). A copy of the AIF and the Company's other publicly filed documents can be accessed under the Company's profile on the System for Electronic Document Analysis and Retrieval ("SEDAR") at www.sedar.com.

We caution that the list of risk factors and uncertainties described in the MD&A and the AIF 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. The forward-looking information contained in this MD&A represents our expectations as of the date of this MD&A (or as of 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. If we do update certain forward-looking information, no inference should be made that we will further update such or other forward-looking information.

Overview

KITS is Canada's fastest growing, vertically integrated, eyecare brand providing eyewear for eyes everywhere.

We offer our KITS community access to a vast selection of contact lenses and eyeglasses, including our own exclusive KITS designed products, as well as an advanced suite of online vision tools. Our efficient digital platform, backed by our industry-leading design, distribution and manufacturing, removes intermediaries and enables us to offer fast service, great prices and deliver made-to-order personalized products with incredible care and accuracy. 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 loyalty.

Recent Key Events

Record revenue for the third quarter and nine months ended September 30, 2022

Revenue for the three months ended September 30, 2022 increased 17.7% to a record \$23.6 million compared to \$20.0 million during the same period in 2021. Revenue for the nine months ended September 30, 2022 also increased to a record \$65.4 million compared to \$62.1 million during the same period in 2021. During the third quarter, growth at KITS accelerated sequentially as customers seeking exceptional value convenience and selection increasingly chose KITS. Driven by word of mouth and customer testimonials revenue growth accelerated year-over-year while marketing expenses declined as a percent of revenues illustrating the growing strength of the KITS brand. Despite a challenging macroeconomic environment globally in the third quarter, the stability of the Company's direct to consumer model, vertical integration and highly recurring revenue allowed our team to focus on continued improvements in operations, customer experience, and marketing efficiency. Additionally, KITS's 2-year Active Customers reached a new record of 765,000.

Gross margins expanded by 470 basis points year-over-year to 30.6% and gross margin dollars increased 38.8%

Against a macroeconomic backdrop of continued inflationary pressures, rising interest rates, and supply chain challenges, we continue to execute our strategy to build the leading direct to consumer eyecare brand for eyes everywhere. Having built out the leading vertically integrated lab and distribution facility in our category over the past two years we began to see the benefits of both scale and speed to customers. Gross profit increased to \$7.2 million a 38.8% increase over the same period in 2021 when we had gross profit of \$5.2 million. As a percentage of revenue, gross margin increased by 470 basis points to 30.6% up from 25.9% a year ago and an increase of 900 basis points from the second quarter of 2021. Gross margin expansion resulted from cost efficiency and pricing improvements as we delivered a record 173,500 total eyecare orders to customers in the third quarter of 2022.

Eyeglasses revenues accelerated in the quarter and increased 80.6% year-over-year

Our focus on growing our eyeglasses business continued as revenue from eyeglasses delivered in the third quarter of 2022 increased approximately 80.6% year-over-year. We also saw brand searches on Google grow significantly this quarter illustrating that the word-of-mouth flywheel has begun to drive consumer adoption of our offering.

We believe that once a new customer experiences our world-class vision care offering, they will be delighted and inspired to return. Eyeglasses delivered to repeat customers grew by 72% year-over-year to more than 17,000 eyeglasses. We have continued to attract new and returning customers with our expansive contact lens inventory, onshore manufacturing, speed of delivery, and robust designer eyeglasses selection. We ended the third quarter with over 308,000 frames in stock, representing more than 800 styles. Our vertically integrated, high-capacity onshore optical lab allows us to reduce the impact of supply chain disruptions, while delivering prescription glasses with a “wow” experience to customers in as little as one day. We continue to focus on expanding the revenue profile per order by delivering exceptional speed, value, and premium lens and delivery options.

Positive cash flow from operations of \$3.9 million, positive EBITDA of \$1,050 and positive net income

In the third quarter of 2022, operating discipline and improved profitability generated positive free cash flow from operations of \$3.9 million and positive EBITDA of \$1,050 for the second consecutive quarter. We also reached positive net income this quarter, generating \$20 of earnings. We believe this demonstrates the resiliency of our recurring revenue model, direct to consumer approach, overall efficiency with scale, and our agility to pivot quickly with shifts in the broader macroeconomic environment.

Category leading retention metrics

In the third quarter of 2022, we saw compelling evidence that our complete vision care offering is both securing customers and inspiring them to return with category leading retention efficiency. We observed a 100% sales retention rate (based on sales order value) on our 2020 customer cohort within 24 months as many of our customers returned to purchase our high-quality products. The resulting strong recurring revenue tailwind allowed us to reduce marketing spend in the quarter significantly.

Repeat orders from our existing community comprised approximately 69% of revenue for the nine months ended September 30, 2022, up from 64% in the nine months ended September 30, 2021.

Financial Highlights

We measure our business using both financial and operating data and use the following metrics and measures to assess the near term and long-term performance of our overall business, including identifying trends, formulating financial projections, making strategic decisions, assessing operational efficiencies, and monitoring our business. See the sections in this MD&A entitled “Components of Our Results of Operations and Trends Affecting Our Business” and “Non-IFRS Measures and Industry Metrics”. The following table summarizes our financial highlights for the three and nine months ended September 30, 2022 and September 30, 2021.

	Three Months Ended		Nine Months Ended	
	September 30, 2022 (unaudited)	September 30, 2021 (unaudited)	September 30, 2022 (unaudited)	September 30, 2021 (unaudited)
Financial and Operating Data				
Revenue	\$23,578	\$20,032	\$65,400	\$62,133
Net income (loss)	\$20	\$(2,137)	\$(3,167)	\$(10,563)
Net income (loss) per share				
Basic	\$0.00	\$(0.07)	\$(0.10)	\$(0.35)
Diluted	\$0.00	\$(0.07)	\$(0.10)	\$(0.35)
Non-IFRS Measures (a):				
Constant currency revenue	\$22,863	\$20,032	\$64,134	\$62,133
EBITDA	\$1,050	\$(1,600)	\$(532)	\$(12,018)
Adjusted EBITDA	\$(795)	\$(1,629)	\$(2,268)	\$(7,543)
Adjusted EBITDA Margin %	(3.4)%	(8.1)%	(3.5)%	(12.1)%

Notes:

(a) Refer to “Non-IFRS Measures and Industry Metrics” section

Non-IFRS Measures and Industry Metrics

In addition to our results determined in accordance with IFRS, we believe the following non-IFRS measures and industry metrics 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.

Non-IFRS Measures

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.

"Constant Currency Revenue" As a majority of our sales are transacted in U.S. dollars, the comparability of revenue reported in Canadian dollars is affected by foreign currency exchange rate fluctuations of U.S. dollars compared to the Canadian dollar over time. The rate fluctuations can have a significant impact on our reported results. Therefore, in addition to financial measures prepared in accordance with IFRS, our revenue discussions may contain references to constant currency measures, which are calculated by translating current period results in local currency using the conversion rates from the comparative period. This measure should not be considered in isolation or as a substitute for any standardized measure under IFRS and the most directly comparable financial measure that is disclosed in our financial statements is revenue. We present constant currency financial information, which is a non-IFRS financial measure, as a supplement to our reported operating results. We use constant currency information to provide a framework to assess how our business performed excluding the effects of foreign currency exchange rate fluctuations. We believe this information is useful to investors to facilitate comparisons of operating results and better identify trends in our businesses. Other companies in our industry may calculate this measure differently than we do, limiting its usefulness as a comparative measure. The following table provides a quantitative reconciliation of reported revenue to revenue on a constant currency basis for the periods presented:

	Three Months Ended		Nine Months Ended	
	September 30, 2022	September 30, 2021	September 30, 2022	September 30, 2021
Reconciliation of constant currency revenue				
Revenue	\$ 23,578	\$ 20,032	\$ 65,400	\$ 62,133
Foreign exchange impact	(715)	-	(1,266)	-
Constant Currency Revenue	\$ 22,863	\$ 20,032	\$ 64,134	\$ 65,133
Change in constant currency	\$ 2,831		\$ 2,001	
Change in constant currency %	14.1%		3.2%	

"Adjusted EBITDA" is defined as EBITDA, 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. The most directly comparable financial measure that is disclosed in our financial statements is net income (loss).

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

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

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 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 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.

We have updated our Adjusted EBITDA to exclude any non-cash unrealized foreign exchange gains or losses as these are not reflective of our ongoing operations or our performance. Comparatives for Adjusted EBITDA had been updated to reflect the above.

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; and
- do not reflect the interest expense, or the cash requirements necessary to service interest or principal payments, on our debt.

The following table provides a quantitative reconciliation of net loss to EBITDA, Adjusted EBITDA and Adjusted EBITDA Margin for the periods presented:

	Three Months Ended		Nine Months Ended	
	September 30, 2022 (unaudited)	September 30, 2021 (unaudited)	September 30, 2022 (unaudited)	September 30, 2021 (unaudited)
Reconciliation of Adjusted EBITDA				
Net income loss for the period	\$ 20	\$ (2,137)	\$ (3,167)	\$ (10,563)
Add back:				
Income taxes	(250)	(649)	(1,148)	(4,668)
Finance costs - net	396	372	1,185	1,398
Depreciation and amortization	884	814	2,598	1,815
EBITDA	\$ 1,050	\$ (1,600)	\$ (532)	\$ (12,018)
Add back:				
Share-based compensation (a)	\$ 308	\$ 358	\$ 976	\$ 1,019
Brand expenses (b)	-	193	-	2,641
Exchange loss / (gain)	(2,156)	(655)	(2,733)	(716)
One-time costs (c)	3	75	21	1,531
Adjusted EBITDA	\$ (795)	\$ (1,629)	\$ (2,268)	\$ (7,543)
Revenue	\$ 23,578	\$ 20,032	\$ 65,400	\$ 62,133
Adjusted EBITDA Margin % (d)	(3.4)%	(8.1)%	(3.5)%	(12.1)%

Notes:

- Represents non-cash share-based compensation expense associated with restricted share rights ("RSRs") and options recognized in the period.
- Represent expenses associated with brand and content creation for KITS including film and other brand assets. The Company plans to use these brand assets over time and therefore will be able to derive future economic benefits from these expenses incurred.

- (c) In connection with the acquisition of Kits.com and the IPO, 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. Other than the one-time IPO directors' and officers' insurance costs which is expensed over the insurance coverage period, we expect the remaining cost to discontinue following the completion of the IPO.
- (d) Represents Adjusted EBITDA divided by revenue from the same period.

Industry Metrics

“Active Customers” As of the last date of each reporting period, we determine our number of active customers by counting the total number of individual customers who have ordered, and for whom an order has shipped, at least once during the preceding stated period. We introduced this number for a 2-year period to provide greater visibility in measuring our business performance as a 2-year period more closely reflects the frequency of repeat purchases in the eyecare sector. The change in active customers in a reporting period captures both the inflow of new customers and the outflow of customers who have not made a purchase in the stated period. We view the number of active customers as a key indicator of our growth—acquisition and retention of customers— and, as such, an indicator of the results of our marketing efforts and the value we provide to our customers.

“Autoship Subscribers” We define Autoship Subscribers as customers that have an active Autoship subscription as of the last date of each reporting period.

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 the AIF.

Impact of COVID-19

The coronavirus disease (“COVID-19”) pandemic has been a highly disruptive economic and societal event that has affected our business and has had a significant impact on consumer shopping behavior. To serve our customers while also providing for the safety and well-being of our team members, we have adapted aspects of our logistics, transportation, supply chain and purchasing processes accordingly. Generally speaking, we have seen customers continue to shift more of their total shopping spend to online channels since the COVID-19 outbreak, which has led to increased sales and order activity for our business. While the COVID-19 outbreak has not had a material adverse impact on our operations to date, it is difficult to predict all of the positive or negative impacts the COVID-19 outbreak will ultimately have on our business.

Over the course of the COVID-19 pandemic, we have monitored conditions and adapted our operations to meet required regulatory and public health standards and orders. We have done so to continue meeting the needs of our rapidly growing customers and to ensure the safety and well-being of our team members. We cannot predict the duration or severity of COVID-19 or its ultimate impact on the broader economy or our operations and liquidity. As such, the situation remains unpredictable and risks still remain. Please refer to the “Forward-Looking Information” in this MD&A and the “Risk Factors” disclosed in our AIF available on SEDAR at www.sedar.com.

Repeat Customer Behaviour

As at September 30, 2022, we had over 765,000 2-year Active Customers, up from 640,000 as at September 30, 2021. We continue to successfully attract a record number of new customers and serve past customers. Repeat orders in the nine months ended September 30, 2022 from existing customers accounted for approximately 69% of revenue up from 64% for the same nine-month period in 2021 demonstrating the recurring nature of our product offering. We attracted 80,000 new customers in the third quarter of 2022 at reduced customer acquisition costs as loyal customers continue to spread the word.

Our Autoship Subscription Program

Our Autoship subscription delivery program offers the “set it and forget it” convenience to our community

of customers, free upgraded shipping, and complimentary vision perks. We believe that our Autoship program will continue to deliver value and convenience to our customers with minimal acquisition costs and provide higher lifetime customer value.

Autoship orders represented 16.7% of total contact lens orders in the third quarter of 2022 compared to 22.0% in the third quarter of 2021. Based on our current Autoship subscribers' feedback, we continued to adjust our Autoship program including promotions provided to customers on sign-up and through the life of their program. We expect fluctuations in the percentage of Autoship orders in the next several quarters as we refine the program to provide the best value to our Autoship subscribers.

Growth of Our Glasses Business

The market for glasses is approximately five times the size of the contact lenses market, and we continue to introduce our loyal vision corrected community to our rapidly growing eyeglasses offering.

Glasses as a category in North America has yet to be disrupted by any onshore direct to consumer player and remains dominated by one large global player while fulfillment is highly fragmented and mainly comprised of independent eyecare practitioners and many small chains. Accordingly, the glasses category presents an attractive opportunity with robust margins for any company that can secure loyal customers with lifelong vision correction needs. We believe that being vertically integrated with onshore manufacturing and controlling both the cost of acquisition and the cost of production will enable us to deliver significant value and convenience to our customers.

In the third quarter of 2022, revenue from eyeglasses delivered increased by 80.6% to \$3,170 for the three months ended September 30, 2022 from \$1,755 for the three months ended September 30, 2021. Eyeglasses units delivered increased by 117.9% year-over-year to more than 61,000 eyeglasses for the third quarter of 2022.

We continued to attract new and repeat customers with our expansive inventory and selection. We ended the quarter with over 308,000 frames in stock and over 800 styles. During the third quarter, our marketing was focused on attracting new glasses customers and we successfully served over 42,000 new glasses customers. Our customers are returning as they recognize the value of our premium frames and lenses. In the third quarter, repeat customers increased 139.5% year-over-year, as over 13,000 glasses customers returned. Eyeglasses delivered to repeat customers increased year-over-year from 9,900 eyeglasses to over 17,000 eyeglasses.

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 and glasses. Revenue is recorded when products are delivered, net of promotional discounts and refund allowances. Revenue is primarily driven by the growth of new customers and Active Customers and the frequency with which customers repurchase and subscribe to our Autoship subscription program.

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.

Fulfillment

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. 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 to which 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. We have been consolidating our distribution and manufacturing centers and we are continuing to automate and optimize our consolidated, state of the art manufacturing and distribution center.

Marketing

Our primary means of attracting customers is through word of mouth and customer retention. Approximately 70% of our revenue comes from returning customers with past order history. In the third quarter and in 2022 generally, we have seen record growth in searches for our KITS brand on Google which we believe is fueled by word of mouth and customer engagement. Marketing includes brand development, advertising and payroll and related expenses for personnel engaged in marketing and selling activities. We also rely heavily on social sharing of our products and services. We believe that the company with the highest net promoter score, or NPS, in any category ultimately derives the highest value in the category. We believe companies with truly high net promoter scores have similarly high numbers of and positive online reviews. Accordingly, we work hard to ensure we deliver exceptional service to customers and actively invest in their long-term and lifetime value. We believe this allows our customers to become advocates for our brand and community, and share the KITS experience with friends and family. The majority of our customers arrive at our sites directly, indicating our strategy is working. This belief is validated by the 80.6% year-over-year growth in eyeglasses delivered that we experienced in the third quarter while reducing marketing spend by 16.7% year-over-year. Since launching glasses, we have continued to see our NPS increase steadily. Our goal is to maintain the highest satisfaction metrics in the category.

We direct customers to our platforms through a number of marketing channels, such as our TV advertising, performance search, third party customer referrals, social media influencers, online advertising, and other initiatives. Our marketing costs are largely variable and can be adjusted to align with growth objectives. 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. As the majority of our business is repeat or subscription-based, and the majority of our store traffic and customers come to us via word of mouth, we expect to become less reliant on external forms of marketing over time. We believe our return on invested capital is among the highest in the category and that our lifetime value metrics demonstrate that the investments we are making in sales and marketing and fulfilment are balanced to ensure long-term sustainable growth. We specifically design differentiated and relevant marketing programs to accelerate word-of-mouth adoption and to decrease reliance on large providers such as Google and Facebook.

Selected Quarterly Consolidated Financial Information

The following table summarizes our recent results of operations for the periods indicated. The selected consolidated financial information set out below for the three months and nine months ended September 30, 2022 and September 30, 2021 has been derived from our condensed interim consolidated financial statements and related notes.

	Three Months Ended		Nine Months Ended	
	September 30, 2022 <i>(unaudited)</i>	September 30, 2021 <i>(unaudited)</i>	September 30, 2022 <i>(unaudited)</i>	September 30, 2021 <i>(unaudited)</i>
CAD \$000s, unless otherwise noted				
Revenue	\$ 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)

	Three Months Ended		Nine Months Ended	
	September 30, 2022 (unaudited)	September 30, 2021 (unaudited)	September 30, 2022 (unaudited)	September 30, 2021 (unaudited)
CAD \$000s, unless otherwise noted				
Depreciation and amortization	577	814	1,695	1,815
Operating income	166	(2,414)	(3,130)	(13,833)
Finance costs, net	396	372	1,185	1,398
Income before income taxes.....	(230)	(2,786)	(4,315)	(15,231)
Income tax expense (recovery).....	(250)	(649)	(1,148)	(4,668)
Net loss	\$ 20	\$ (2,137)	\$ (3,167)	\$ (10,563)
Non-IFRS measures (a)				
Constant currency revenue	\$ 22,863	\$ 20,032	\$ 64,134	\$ 62,133
EBITDA.....	\$ 1,050	\$ (1,600)	\$ (532)	\$ (12,018)
Adjusted EBITDA.....	\$ (795)	\$ (1,629)	\$ (2,268)	\$ (7,543)
Adjusted EBITDA Margin %.....	(3.4) %	(8.1) %	(3.5) %	(12.1) %

Notes:

- (a) Refer to "Non-IFRS Measures and Industry Metrics" section.

Three and Nine Months Ended September 30, 2022, Compared to Three and Nine Months Ended September 30, 2021

The following section provides an overview of our financial performance during the three and nine months ended September 30, 2022 to the three and nine months ended September 30, 2021. The selected consolidated financial information contained herein for these periods has been derived from our condensed interim consolidated financial statements and related notes.

Revenue

Revenue was \$23,578 and \$65,400 in the three and nine months ended September 30, 2022, an increase of \$3,546 and \$3,267, compared to \$20,032 and \$62,133 in the three months and nine months ended September 30, 2021. On a Constant Currency Revenue basis, revenue increased by 14.1% and 3.2% in the three and nine months ended September 30, 2022, compared to the three and nine months ended September 30, 2021.

In the third quarter of 2022, the increase in revenue was driven by an increase by total patient orders delivered and an increase in each patient's order value. Revenue from eyeglasses delivered increased 80.6% and 63.4% to \$3,170 and \$8,593 for the three and nine months ended September 30, 2022 from \$1,755 and \$5,258 for the three and nine months ended September 30, 2021. The increase in revenue from eyeglasses is due to an increase in eyeglasses delivered from 28,000 and 112,000 in the three and nine months ended September 30, 2021 to 61,000 and 181,000 eyeglasses in the three and nine months ended September 30, 2022. We are continuing to see new first-time customers inspired to try KITS while revenue from repeat eyeglass customers remain strong. As already noted, this continued strong growth in glasses occurred despite our significant continued reduction in marketing spend in the third quarter.

Gross Profit

Gross margins expanded to 30.6% and 31.1% for the three and nine months ended September 30, 2022 from 25.9% and 23.8% in the three and nine months ended September 30, 2021. Gross profit increased by 38.8% and 37.6% to \$7,213 and \$20,343 in the three and nine months ended September 30, 2022, compared to \$5,197 and \$14,787 in the three and nine months ended September 30, 2021. Gross margins expanded as a result of fewer initial discounts being offered to new customers and more returning loyal customers in the quarter. Returning customers typically return at higher gross margins than their initial orders.

We are pleased to continue to deliver gross margins exceeding 30%, which demonstrates significant progress towards our goal of generating long-term gross margins of 35-40% as our glasses business and returning contact lens customers become a larger portion of total revenue.

Fulfillment

Fulfillment expenses were \$3,156 and \$9,124 in the three and nine months ended September 30, 2022, compared to \$2,741 and \$8,739 in the three and nine months ended September 30, 2021. Fulfillment expenses as a percentage of revenue improved to 13.4% and 14.0% in the three and nine months ended September 30, 2022, compared to the three months and nine months ended September 30, 2021 at 13.7% and 14.1% as we effectively manage rising costs and scale our business. Our KITS vertically integrated onshore optical lab, which produces customized digital progressive lenses, enables KITS to largely avoid supply chain disruptions and to maintain stable fulfillment expenses. We have been fortunate to avoid the significant supply chain disruptions faced by many others in the industry, a testament to both our operations team and our onshore production strategy as our team relentlessly sought to offset any increases in cost with technology, operational, and other efficiencies.

Marketing

Marketing expenses were \$3,346 and \$9,374 in the three and nine months ended September 30, 2022, compared to \$2,866 and \$11,649 in the three and nine months ended September 30, 2021. Marketing expenses as a percentage of revenue improved to 14.2% and 14.3% in the three and nine months ended September 30, 2022, compared to 14.3% and 18.7% in the three and nine months ended September 30, 2021. We are pleased to continue to see the recurring benefit from the brand investments we made last year. During the nine months ended September 30, 2021, we invested \$2,641 in brand awareness and top of funnel activities which were non-recurring in the nine months ended September 30, 2022. As our loyal customer base and brand awareness continue to grow, we anticipate further efficiencies within our marketing initiatives.

General and administrative

General and administrative expenses increased by \$279 and decreased by \$1,120 to \$2,124 and \$6,013 in the three and nine months ended September 30, 2022, compared to \$1,845 and \$7,133 in the three and nine months ended September 30, 2021. Excluding one-time costs incurred in connection with our initial public offering ("IPO") completed in 2021, general and administrative expenses increased by \$555 and \$366 from \$2,791 and \$9,008 in the three and nine months ended September 30, 2021. We have grown our team and incurred additional continuing costs associated with operating a public company.

Exchange (gain)/loss

Exchange gain increased by \$1,501 and \$2,017 to \$2,156 and \$2,733 in the three and nine months ended September 30, 2022, compared to \$655 and \$716 in the three and nine months ended September 20, 2021. The increase in exchange gains were due to the strengthening of the US dollar against the Canadian dollar.

EBITDA and Adjusted EBITDA

EBITDA was \$1,050 and \$(532) in the three and nine months ended September 30, 2022, compared to \$(1,600) and \$(12,018) in the three and nine months ended September 30, 2021. Adjusted EBITDA was \$(795) and \$(2,268) in the three and nine months ended September 30, 2022, compared to \$(1,629) and \$(7,543) in the three and nine months ended September 30, 2021.

EBITDA as a percentage of revenue was 4.5% and (0.8) % in the three and nine months ended September 30, 2022, compared to (8.0)% and (19.3)% in the three and nine months ended September 30, 2021.

Adjusted EBITDA as a percentage of revenue was (3.4)% and (3.5)% in the three and nine months ended September 30, 2022, compared to (8.1)% and (12.1)% in the three and nine months ended September 30, 2021.

The improvement in EBITDA and Adjusted EBITDA was driven by our continued focus on returning to profitability in the fiscal year 2022 as we focused on generating the best returns on every order delivered, and the factors discussed above.

Finance costs

Finance costs in the three and nine months ended September 30, 2022, increased by \$24 and decreased by \$(213) from \$372 and \$1,398 in the three and nine months ended September 30, 2021 to \$396 and \$1,185. The change was primarily due to an increase in interest expenses recorded on lease liabilities and an increase in the variable BDC interest rate during the period, offset by lower interest expenses on the BDC Loan due to decreased principal outstanding and a one-time finance cost incurred in the three months ended March 31, 2021 of \$375.

Income Taxes

Income taxes changed by \$399 and \$3,520 to an income tax recovery of \$250 and \$1,148 in the three and nine months ended September 30, 2022, compared to an income tax recovery of \$649 and \$4,668 in the three and nine months ended September 30, 2021, primarily due to a lower loss during the year.

Net Income (loss)

Net income was \$20 and \$(3,167) in the three and nine months ended September 30, 2022, a change of \$2,157 and \$7,396 compared to a net loss of \$(2,137) and \$(10,563) in the three and nine months ended September 30, 2021.

The change in net income was primarily due to a foreign exchange gain of \$2,156 recognized in the third quarter of 2022 and one-time IPO costs and brand expenses incurred in the first quarter of 2021 that did not recur in 2022. Refer to the factors discussed above related to the variance in the costs incurred in the current quarter excluding these one-time IPO costs.

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							
	September 30, 2022	June 30, 2022	March 31, 2022	December 31, 2021	September 30, 2021	June 30, 2021	March 31, 2021	December 31, 2020
Revenue.....	\$ 23,578	\$ 21,770	\$ 20,052	\$ 20,270	\$ 20,032	\$ 21,669	\$ 20,432	\$ 20,283
Net income (loss).....	\$ 20	\$ (923)	\$ (2,264)	\$ (4,054)	\$ (2,137)	\$ (4,858)	\$ (3,568)	\$ (6,216)
Weighted average number of shares								
Basic.....	31,283,213	31,344,634	31,241,716	31,156,898	31,131,320	31,070,766	27,090,885	9,200,000
Diluted	31,283,213	31,344,634	31,241,716	31,156,898	31,131,320	31,070,766	27,090,885	9,200,000
Net income per share								
Basic.....	\$ (0.00)	\$ (0.03)	\$ (0.07)	\$ (0.13)	\$ (0.07)	\$ (0.16)	\$ (0.13)	\$ (0.68)
Diluted.....	\$ (0.00)	\$ (0.03)	\$ (0.07)	\$ (0.13)	\$ (0.07)	\$ (0.16)	\$ (0.13)	\$ (0.68)
Average US\$/Canadian dollar exchange rate (a)	\$ 1.3050	\$ 1.2765	\$ 1.2666	\$ 1.2605	\$ 1.2592	\$ 1.2284	\$ 1.2664	\$ 1.3029

Notes:

- (a) Average US\$/Canadian dollar exchange rate is the average of Bank of Canada daily noon rates based on calendar days within the quarter.

Revenue

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

- the growth in orders and increased new customers;

- the accelerated secular change to ordering eyewear products online;
- the successful growth of our Kits.com and Kits.ca sites;
- the rollout of our own KITS-branded glasses offering and expanded lens offering;
- the introduction and continued focus to grow our Autoship subscription program; and
- the continual increase in branded eyeglass frames selection and inventory.

Net Income (loss)

Net income (*loss*) has been affected by the following factors over the last eight quarters:

- the impact of the items noted in revenue above;
- the transaction costs associated with the IPO completed in Q1 2021;
- the increased investment in our Autoship subscription business and glasses offering;
- the increase in brand, marketing, and personnel costs to support our brand launch, corporate growth, and expanded operating capabilities including the optical lab expansion;
- the opening of our fulfillment and optical lab center;
- the impact of foreign exchange on our revenue and costs;
- increased one-time, non-cash finance costs associated with debt incurred related to the IPO; and
- increased one-time, non-cash finance costs associated with the conversion of all of the outstanding preferred shares into common shares of the Company (“Common Shares”) in conjunction with the IPO.

Financial Condition, Liquidity and Capital Resources

Overview

The objectives of our capital management strategy are to invest in growing our business while maintaining our financial and operating flexibility, provide benefits to our stakeholders, and provide an adequate return on investment to our shareholders. We allocate capital based on our assessment of the expected risk and return profile of each investment. This strategy is adjusted with changes in the economic environment and risks of the underlying investments. 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 general corporate purposes. Our primary source of liquidity are funds generated by operating activities and proceeds from our IPO. 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 growth strategy, to establish a strong capital base to satisfy its obligations towards its creditors, and to provide an adequate return to shareholders.

Our primary sources of cash flow are from operations, debt financing, and equity issuances. Our approach to managing liquidity is to ensure, to the extent possible, that we optimize working capital funded by our operations and maintain 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.

The working capital as at September 30, 2022 was \$13,565 compared to \$18,889 as at December 31, 2021. Similar to other e-commerce businesses, customers pay for purchases upfront and we deliver goods from inventory or from suppliers. Overall, regarding purchase and expenses, we have favorable payment terms from suppliers, which typically provides a net source of cash from working capital. We believe that cash generated from our operations and our current cash balance will adequately meet our capital requirements and operational needs for the next 12 months. Additionally, our growth-focused marketing budget provides a lever the Company can use to

increase cash generated from operations. Our goal is to produce capital as we grow and remain an asset-light eyecare company.

Indebtedness

The Company entered into a secured loan agreement for \$23,400 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 (“BDC Loan”). The BDC loan bears interest at BDC’s floating rate plus a spread and is payable on a monthly basis. As at September 30, 2022, the 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 BDC Loan is in good standing and the Company is in compliance with its debt covenants.

As at September 30, 2022, the carrying amount of the BDC Loan was \$12,043 (2021: \$14,342). The change is due to the monthly principal payments made during the period.

On January 18, 2021, in connection with the conversion of all the Company’s preferred shares, the Company issued a promissory note of \$2,412 (the “Promissory Note”) which represents the accrued dividends payable to the former holders of the preferred shares. The Promissory Note bears no interest and matures on the earlier of January 31, 2026 or the date after the BDC Loan has been repaid in full (the “Maturity Date”). Unpaid principal shall be payable in quarterly installments of \$121 beginning on March 31, 2021, subject to the consent of BDC. Any unpaid principal shall be payable in full upon the Maturity Date. As at September 30, 2022, the carrying amount of the Promissory Note was \$1,848 (2021: \$1,744) and the change is due to accretion expenses recognized. During the nine months ended September 30, 2022, no quarterly principal was paid to the Promissory Note holders.

Cash Flows

The following table presents cash and cash equivalents as at September 30, 2022 and September 30, 2021:

	Three Months Ended		Nine Months Ended	
	September 30, 2022 <i>(unaudited)</i>	September 30, 2021 <i>(unaudited)</i>	September 30, 2022 <i>(unaudited)</i>	September 30, 2021 <i>(unaudited)</i>
Net cash provided by (used in) operating activities...	\$ 3,852	\$ (910)	\$ 5,085	\$ (20,766)
Net cash provided by (used in) financing activities ...	(1,298)	(1,162)	(3,833)	43,203
Net cash provided by (used in) investing activities....	(88)	(471)	(197)	(3,499)
Increase (decrease) in cash	2,466	(2,543)	1,055	18,938
Cash and cash equivalents, end of period	\$ 20,402	\$ 21,119	\$ 20,402	\$ 21,119

Analysis of Cash Flows for the three and nine months ended September 30, 2022, compared to the three and nine months ended September 30, 2021

Cash Provided by Operating Activities

Cash flow provided by operating activities was \$3,852 and \$5,085 in the three and nine months ended September 30, 2022, compared to cash used in operating activities of \$910 and \$20,766 in the three and nine months ended September 30, 2021, changes of \$4,762 and \$25,851. These increases in cash generated in operating activities for the three and nine months ended September 30, 2022 is a result of our continued efforts to improve the profitability of our operations and improve our working capital metrics.

Cash Used in Financing Activities

Cash flow used in financing activities was \$1,298 and \$3,833 in the three and nine months ended September 30, 2022, compared to \$1,162 of cash flow used in and \$43,203 of cash flow provided by financing activities in the

three and nine months ended September 30, 2021. The decrease in cash flow used in financing activities of \$136 for the three months ended September 30, 2021 is due to higher lease payments for equipment and leases as we completed our new onshore optical lab in Q3 2021. The decrease in cash flow provided by financing activities in the nine months ended September 30, 2021 is due to the receipt of our IPO proceeds of \$51,047. Excluding the IPO proceeds, the cash flow used in financing activities decreased by \$4,011 from \$7,884 for the nine months ended September 30, 2021 to \$3,833 for the nine months ended September 30, 2022. The decrease is due to a one-time BDC Loan prepayment and prepayment fees incurred during the first quarter of 2021 partially offset by higher lease payments for equipment and leases upon completion of our new onshore optical lab.

Cash Used in Investing Activities

Cash flow used in investing activities increased by \$383 and \$3,302 to \$88 and \$197 in the three and nine months ended September 30, 2022, compared to \$471 and \$3,499 of cash flow used in investing activities in the three and nine months ended September 30, 2021. The decrease in cash flow used in investing activities in the three and nine months ended September 30, 2022 is primarily due to less capital equipment purchases made during the quarter.

Off-Balance Sheet Arrangements and Commitments

We have no off-balance sheet arrangements or commitments.

Contractual Obligations

The following table summarizes certain of our significant contractual obligations and other obligations as at September 30 2022:

	Payments Due by Period (\$ in thousands)				
	Contractual cash flows	Less than 1 year	1-3 years	4-5 years	After 5 years
Contractual obligations					
Accounts payable and accrued liabilities.....	\$ 13,310	\$ 13,310	\$ -	\$ -	\$ -
Loan Principal amount	11,957	3,000	6,000	2,957	-
Loan Interest	2,141	1,021	1,050	70	-
Promissory note	2,412	-	-	2,412	-
Lease liability	9,049	1,071	2,177	1,762	4,039
Total Contractual obligations	\$ 38,869	\$ 18,402	\$ 9,227	\$ 7,201	\$ 4,039

As of September 30, 2022, we had additional liabilities which included pending or in-transit orders and sales returns. These 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, accounts receivable, accounts payable and accrued liabilities, the BDC Loan and the Promissory Note.

The carrying value of cash and cash equivalents, accounts receivable, 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 the Promissory Note are classified as financial assets and liabilities at amortized cost. There were no financial liabilities that are measured at fair value as at September 30, 2022.

BDC Loan

As at September 30, 2022, the carrying amount of the loan was \$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 an effective interest rate of 8.92% (2021: 6.95%).

Promissory Note

As at September 30, 2022, the carrying value of the promissory note was \$1,848 (2021: \$1,744). During the 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%.

Risk Factors

For a detailed description of risk factors associated with the Company, refer to the “Risk Factors” section of the AIF, which is available on SEDAR at www.sedar.com.

In addition, we are exposed to a variety of financial risks in the normal course of operations including foreign exchange, interest rate, credit, liquidity and equity price risk, as summarized below. We believe that our overall risk management program and business practices help minimize any potential adverse effects on our consolidated financial performance.

Risk management is carried out under practices approved by our board of directors (the “Board”). This includes reviewing the adequacy of our risk management policies and procedures with regard to identifying the Company’s principal risks and implementing appropriate systems and controls to manage these risks. Risk management covers many areas of risk including, but not limited to, foreign exchange risk, interest rate risk, credit risk, liquidity risk and equity price risk.

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. For a detailed description of risk factors associated with the Company, refer to the “Risk Factors” section of the AIF, which is available on SEDAR at www.sedar.com.

Foreign Exchange Risk

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. 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 approximate favorable impact of \$372 on the nine months ended September 30, 2022 consolidated loss.

Interest Rate Risk

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 from BDC. The principal amount outstanding under the loan was \$10.7 million as at September 30, 2022 which

currently bears interest at 11.00%. A 1.00% increase in the floating interest rate would have increased interest paid by \$84 and finance costs by \$77 for nine months ended September 30, 2022.

Credit Risk

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. The majority of accounts receivable are settled in under 30 days. In order to reduce this risk, we use industry leading payment processors, including Braintree Payment Gateway, 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 managing our balance sheet and monitoring actual and projected cash flows, considering the seasonality of our revenue, income and working capital needs.

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 Arshil Abdulla (Chief Technology Officer of KITS), 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 the common control of Roger Hardy, (Chief Executive Officer and Director of KITS). 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. The leases continue on a year-to-year basis, and amounts are payable monthly. 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 and \$56 and \$156 (2021: \$50 and \$150) of share-based compensation. \$48 of Board fees remain unpaid as at September 30, 2022. The Promissory Note holders are former holders of the preferred shares in the Company and include certain key management of the Company and their affiliates. For further details regarding the Promissory Note, see "Financial Condition, Liquidity and Capital Resources" and "Financial Instruments" above.

Key management compensation

Key management consists of the Board, 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.

Subsequent Event

On November 8, 2022, the Company granted 37,250 share options to its employees that expire seven years after the initial grant date, subject to a vesting schedule and the terms of the Company's option plan. 13,332 share options were forfeited.

Critical Accounting Estimates and Judgments

Our financial statements have been prepared in accordance with IFRS as issued by the International Account Standards Board. 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.

Inventories

In estimating the 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.

Revenue

Revenue is recognized when the goods are delivered and have been accepted by customers. The critical assumptions and estimates used in determining the total revenue to be recognized for each reporting period are based on an estimated couriers' average transit time it takes for the customer to accept the goods.

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 determine 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 cash-generating units (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.

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 forfeiture rate, expected time to exercise in years, expected dividend yield, and volatility.

Income and other taxes

Key Sources of Estimation: In determining the recoverable amount of deferred tax assets, the Company forecasts future taxable income by legal entity and the period in which the income occurs to ensure that sufficient taxable income exists to utilize the attributes. Inputs to those projections are management's financial forecasts and statutory tax rates.

Significant New Accounting Standards Not Yet Adopted

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.

Current Share Information

As at November 8, 2022, an aggregate of 31,286,550 Common Shares were issued and outstanding. There were no preferred shares issued and outstanding as of such date.

As at November 8, 2022, there were 2,871,142 options and 37,742 restricted share rights outstanding under the Company's equity incentive plans, of which 2,167,962 options and 29,902 restricted share rights were vested as of such date. Each option is exercisable for one Common Share. We expect that vested restricted share rights will be paid at settlement through the issuance of one Common Share per restricted share right.

Additional Information

Additional information relating to the Company, including the AIF, is available on SEDAR at www.sedar.com. Our Common shares are listed for trading on the TSX under the symbol "KITS".