

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 2021

The following Management's Discussion and Analysis ("**MD&A**") dated March 9, 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 audited consolidated financial statements for the year ended December 31, 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. References to "Fiscal 2021" refer to our fiscal year ended December 31, 2021.

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 to be filed on March 9, 2022 for Fiscal 2021 (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 its 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 a rapidly growing, vertically integrated, digitally native eyecare platform 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 inspire the KITS community to join our movement by constantly pursuing cutting-edge technologies to enable the best customer experience, including online eyewear fitting tools, virtual try-on for glasses, and an integrated online vision test. We strive to delight our customers with our competitive prices, a convenient digital shopping experience, fast and reliable delivery options – including our convenient "Autoship" subscription program for contact lenses – and an unrelenting focus on earning our customers' lifelong loyalty.

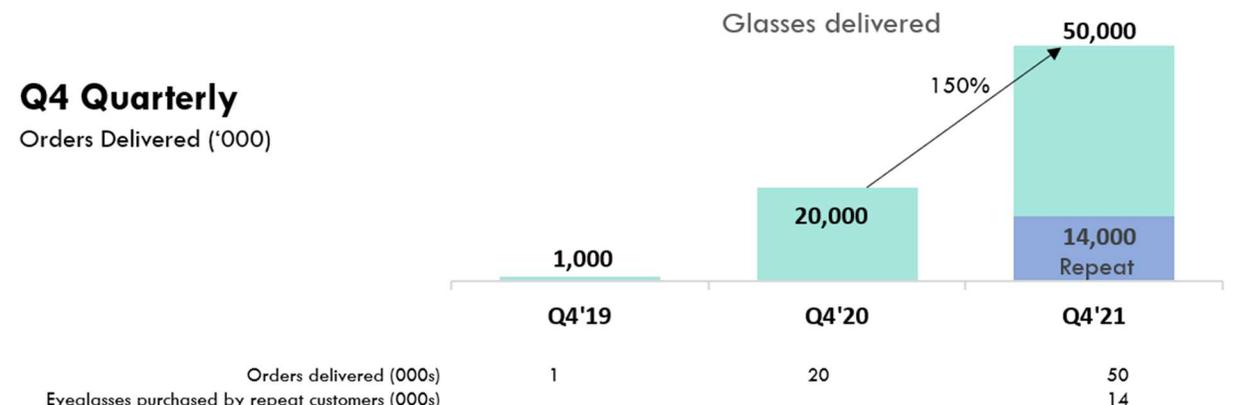
Recent Key Events

Year-over-year revenue growth of 15% on a constant currency basis, Active Customer growth of 36% and eyeglasses growth of over 300%

In 2021, our objectives were to grow our community of vision-corrected customers and to build a significant eyeglasses business by introducing an onshore, vertically integrated, world-class eyeglasses offering to our recurring contact lens focused community base. During the year, we attracted a record 271,000 new customers to KITS bringing total Active Customers to 680,000, representing a year-over-year increase of 36%. Additionally, we delivered 163,000 pairs of eyeglasses to customers in 2021 compared to 38,000 eyeglasses in 2020 a growth rate of over 300%. Overall revenue grew 15.1% in 2021 and 2.4% for the quarter ended December 31, 2021 when adjusted for the impact of foreign exchange compared to the corresponding periods in the prior years. Overall, 2021 revenue grew by 9.6% to \$82,403 compared to \$75,217 in the prior year. This 2021 growth of our installed base of vision-corrected customers and revenue builds on record growth in 2020, as the optical category continued its shift online in both glasses and contact lenses fueled by the pandemic and customers continuing to seek the improved savings and convenience of ordering online.

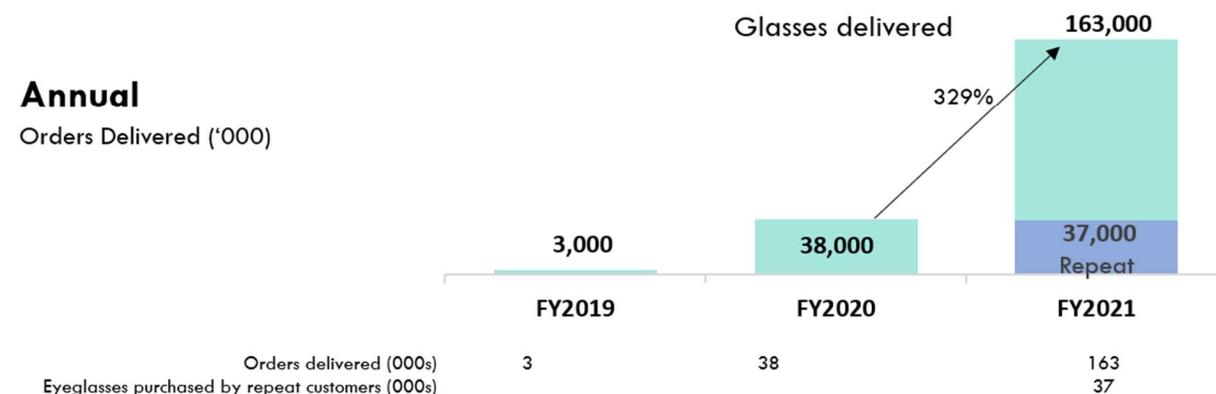
Q4 Quarterly

Orders Delivered ('000)



Annual

Orders Delivered ('000)



We have historically experienced strong customer retention and lifetime value from our core contact lens business. We were fortunate to see this trend continue in 2021, as repeat orders from our existing community accounted for approximately 71% of revenue, an increase from 2020 at 65% of revenue from repeat business. Repeat customer orders as a percentage of revenue increased in 2021 even as our new customers grew 36% year-over-year. Our successful Autoship subscription program was a key driver of retention, with Autoship orders representing 22.1% of total contact lens orders in 2021 and 23.9% of total contact lens orders in the fourth quarter of 2021. Our glasses customers are also returning, with eyeglasses purchased by repeat customers increasing over 500% in 2021. For KITS, there is significant growth potential in the larger more fragmented eyeglasses category. The addressable market for glasses is approximately five times the size of the contact lens market and today is serviced by a large fragmented network of independent eyecare practitioners. Our investment in an onshore vertically integrated eyeglasses manufacturing infrastructure enabled us to cut out the middlemen, deliver predictably, and quickly become one of the leading players in the market in 2021. Our value, selection, and speed of delivery continues to be industry leading and will position us for continued growth in 2022 and beyond.

2021 was a year of investment for KITS. First, we made capital investments in building a fully automated onshore optical lab with the capacity to produce thousands of single vision and digital progressive lenses per day. This investment came online in Q3. Next, we invested in attracting a strong community base of loyal customers who would spread the word about our high-quality, comprehensive eyecare offering. To achieve this, we offered introductory offers to first time glasses and subscription customers. Finally, we invested in expanding the KITS brand, predominantly in Q1 and Q2 with expanded top of funnel marketing efforts which we believe will continue to deliver returns in the quarters to come. These investments accelerated community growth, while they compressed our short-term topline revenue and gross margins. These investments position us with a solid KITS platform for substantial, profitable growth in the years ahead.

We are already seeing the positive impacts of this investment. Our contact lens business continues to be a

highly recurring, profitable foundation for our business. On top of this core business, a total of 163,000 pairs of eyeglasses were delivered to our community in 2021 (2020: 38,000), up over 4x year-on-year. Deliveries of eyeglasses to new customers were up over 270% in 2021 compared to 2020 as our expanded marketing initiatives attracted a record number of new customers to our quality eyeglasses offering. In addition, eyeglasses purchased by repeat customers increased by over 300% year-on-year as we delivered over 14,000 pairs of eyeglasses in the fourth quarter of 2021 to repeat customers who typically place higher value orders. The significant growth in our sales to repeat customers reflects our success in delivering quality eyeglasses at prices that inspire existing customers to return. In addition, gross margin expanded by 680 bps to 30.1% in the fourth quarter of 2021 compared to 23.3% in the fourth quarter of 2020 as we shifted our promotional offers. We believe gross margin will continue to expand as eyeglasses become a bigger part of our mix.

As we completed our first year as a publicly traded company, we are proud of our progress and the outlook for 2022 and 2023 is strong. Our core community of highly-recurring vision-corrected customers remains strong and growing despite macro headwinds. We believe that as our community and brand continue to add delighted customers, our revenue will expand given our strategic and competitive positioning within the optical category. In Q1 2022, we launched our B2B platform, Fulfillment by KITS (FBK), providing access to our vertically integrated manufacturing lab and fulfillment center to select partners in health care, insurance, and optical, with plans to grow this high margin B2B subscription platform substantially over the coming years. Our onshore optical lab, meaningful eyeglasses business, and B2B foundation provide us with a hard to replicate, enviable moat in the \$35B+ optical industry.

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 in this MD&A and see also the section 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 both the three months and years ended December 31, 2021 and 2020.

	Three Months Ended		Year Ended	
	December 31, 2021	December 31, 2020	December 31, 2021	December 31, 2020
Financial and Operating Data				
Revenue.....	\$20,270	\$20,283	\$82,403	\$75,217
Net income (loss).....	\$(4,054)	\$(6,216)	\$(14,617)	\$(6,583)
Net income (loss) per share.....				
Basic.....	\$(0.13)	\$(0.68)	\$(0.49)	\$(0.72)
Diluted.....	\$(0.13)	\$(0.68)	\$(0.49)	\$(0.72)
Non-IFRS Measures (a):				
Constant currency revenue.....	\$20,775	\$20,283	\$86,582	\$75,217
Adjusted EBITDA.....	\$(1,177)	\$(1,220)	\$(8,004)	\$3,548
Adjusted EBITDA Margin %.....	(5.8)%	(6.0)%	(9.7)%	4.7%

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 tables below provide a quantitative reconciliation of reported revenue to revenue on a constant currency basis for the periods presented:

	Three Months Ended		Year Ended	
	December 31, 2021	December 31, 2020	December 31, 2021	December 31, 2020
Reconciliation of constant currency revenue				
Revenue.....	\$ 20,270	\$ 20,283	\$ 82,403	\$ 75,217
Foreign exchange impact	505	-	4,179	-
Constant Currency Revenue	\$ 20,775	\$ 20,283	\$ 86,582	\$ 75,217
Change in constant currency	\$ 492		\$ 11,365	
Change in constant currency %	2.4%		15.1%	

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

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

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, 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.

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 tables below provide a quantitative reconciliation of net income to Adjusted EBITDA and Adjusted EBITDA Margin for the periods presented:

	Three Months Ended		Year Ended	
	December 31, 2021	December 31, 2020	December 31, 2021	December 31, 2020
Reconciliation of Adjusted EBITDA				
Net income / (loss) for the period	\$ (4,054)	\$ (6,216)	\$ (14,617)	\$ (6,583)
Add back:				
Income taxes	442	(1,065)	(4,226)	(505)
Finance costs - net	400	1,433	1,798	3,090
IPO related fair value accrual for preferred (a)	-	3,375	-	3,773
Depreciation and amortization	858	509	2,673	2,013
Share-based compensation (b)	\$ 497	\$ 307	\$ 1,516	\$ 811
Brand expenses (c)	607	-	3,248	-
One-time costs (d)	73	437	1,604	949
Adjusted EBITDA	\$ (1,177)	\$ (1,220)	\$ (8,004)	\$ 3,548
Revenue	\$ 20,270	\$ 20,283	\$ 82,403	\$ 75,217
Adjusted EBITDA Margin % (e)	(5.8)%	(6.0)%	(9.7)%	4.7%

Notes:

- IPO related fair value accrual for Class A and C preferred shares for the three months and year ended December 31, 2020 is a non-cash one time expense. These class A and C preferred shares were converted into Common Shares and are no longer outstanding.
- 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.
- 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.
- 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 as well as 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. As reflected in the discussion below, we have seen customers continuing 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.

As this crisis has unfolded, we have continued to monitor conditions and adapt 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.

Growth in Revenue and Active Customers

During the year ended December 31, 2021, 2-year Active Customers grew 36% to 680,000, up from 500,000 as of December 31, 2020. We have continued to successfully attract a record number of new customers and reactivate past customers. Repeat orders in 2021 from existing customers accounted for approximately 71% of revenue, an increase from 2020 at 65% of revenue from repeat business. We attracted a record 271,000 new customers in 2021 due to our continued marketing efforts which drive visitors to our site via targeted advertising campaigns through TV ads and social media.

Growth of Our Autoship Subscription Program

Our Autoship subscription delivery program offers the “set it and forget it” convenience to our community of customers, as well as the access to free upgraded shipping and complimentary vision and styling tools we offer as part of the program. Autoship orders represented 22.1% of total contact lens order in 2021 and 23.9% of total contact lens orders in the fourth quarter of 2021, up from 22.0% in the third quarter of 2021. 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.

Growth of Our Glasses Business

The market for glasses is approximately five times the size of the contact lenses market, and we will continue to introduce our loyal vision corrected community to our rapidly growing eyeglasses offering. Glasses as a category has yet to be disrupted and is dominated by a few large players and fulfillment is highly fragmented and dominated by predominantly small independent eyecare practitioners. Accordingly, the glasses category presents an attractive opportunity with robust margins for any company that can secure loyal customers with lifelong vision correction needs. Our belief is that being vertically integrated with onshore manufacturing in this category by controlling both the cost of acquisition and the cost of production will enable us to deliver unparalleled value and convenience to our customers.

In 2021, we delivered 163,000 pairs of eyeglasses to our community compared to 38,000 eyeglasses in 2020, an increase of over 300%. Deliveries on eyeglasses to new customers were up over 270% in 2021 compared to 2020. The significant growth in our repeat customers reflects the success of our delivering quality eyeglasses. As customers return, they spend more on their subsequent orders by purchasing multiple pairs of eyeglasses or higher value products which results in higher lifetime value metrics. We expanded our inventory and ended the year with over 360,000 frames in stock and over 700 styles. With our expansive inventory and selection, we believe we will be able to continue to attract new and repeat customers and increase revenue per customer over time.

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, and related shipping and handling fees. Revenue is recorded when products are delivered, net of promotional discounts and refund allowances. Revenue is primarily driven by 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

Marketing costs include 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. 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. We have evidence that our strategy is working, as the majority of our customers arrive to our store directly, meaning they arrived without the benefit of any performance marketing source. Since launching our glasses business, we have continued to see this number increase steadily. Our goal is to maintain the highest satisfaction metrics in the category. From a paid media standpoint, we direct customers to our platforms through a number of marketing channels, such as our TV advertising, performance search, third party customer referrals, social micro and macro 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 specifically design differentiated and relevant marketing programs to accelerate word of mouth adoption and leave us less dependent on large providers such as Google and Facebook.

Selected Annual and Quarterly Consolidated Financial Information

The following table summarizes our recent results of operations for the periods and years indicated. The selected consolidated financial information set out below for the three months and year ended December 31, 2021 and 2020 has been derived from our consolidated financial statements and related notes.

	Three Months Ended		Year Ended	
	December 31, 2021 <i>(unaudited)</i>	December 31, 2020 <i>(unaudited)</i>	December 31, 2021 <i>(audited)</i>	December 31, 2020 <i>(audited)</i>
CAD \$000s, unless otherwise noted				
Revenue.....	\$ 20,270	\$ 20,283	\$ 82,403	\$ 75,217
Cost of sales.....	14,166	15,547	61,512	53,829
Gross profit.....	6,104	4,736	20,891	21,388
Fulfillment.....	2,728	2,224	11,467	7,598
Marketing.....	3,873	2,466	15,522	7,836
General and administrative.....	2,153	2,010	8,570	4,166
Depreciation and amortization	562	509	2,377	2,013
Operating income.....	(3,212)	(2,473)	(17,045)	(225)
Finance costs, net.....	400	1,433	1,798	3,090
IPO related fair value accrual for class A and Class C preferred shares (b).....	-	3,375	-	3,773
Income before income taxes	(3,612)	(7,281)	(18,843)	(7,088)
Income tax expense (recovery)	442	(1,065)	(4,226)	(505)
Net income (loss)	\$ (4,054)	\$ (6,216)	\$ (14,617)	\$ (6,583)
Non-IFRS measures (a).....				
Constant currency revenue.....	\$ 20,775	\$ 20,283	\$ 86,582	\$ 75,217
Adjusted EBITDA	\$ (1,177)	\$ (1,220)	\$ (8,004)	\$ 3,548
Adjusted EBITDA Margin %	(5.8) %	(6.0) %	(9.7) %	4.7 %

Notes:

- (a) Refer to "Non-IFRS Measures and Industry Metrics" section.
- (b) IPO related fair value accrual for Class A and C preferred shares for the three months and year ended December 31, 2020 is a non-cash one time expense. During the year ended December 31, 2021, these class A and C preferred shares were converted into Common Shares and are no longer outstanding.

Three Months ended December 31, 2021, Compared to Three Months Ended December 31, 2020, and Year Ended December 31, 2021, Compared to Year Ended December 31, 2020

The following section provides an overview of our financial performance during the three months ended December 31, 2021 to three months ended December 31, 2020 and year ended December 31, 2021, compared to the year ended December 31, 2020.

Overall, our results for the year ended December 31, 2021 reflect our strategic objectives of building out an onshore world class manufacturing facility while expanding the offering for our large community of vision corrected customers, and to growing and expanding our Autoship program for contact lenses. Since many of our new customers were acquired through a combination of brand and performance marketing spend and promotions, the costs associated with fulfilling these new customer orders impacts gross margin and earnings in the quarter in which the customers are acquired. Simultaneously, the revenue recognized in 2021 does not represent the lifetime value that we expect from these customers over the course of their engagement with our brand. As we look forward,

we expect that a large percent of these customers will return in future quarters with a lower associated marketing cost. Additionally, we expect gross margin to expand as we leverage the investments made in 2021.

Revenue

Revenue remained unchanged, totaling \$20,270 in the three months ended December 31, 2021 when compared to the same period in 2020. The comparable revenue in the three months ended December 31, 2021 compared to three months ended December 2020 was due to currency fluctuations as underlying growth in our business was offset by the weakening of U.S. Dollars against Canadian Dollars as the majority of our revenues are derived in U.S. Dollars. On a Constant Currency Revenue basis, revenue increased by 2.4% in the three months ended December 31, 2021, compared to the three months ended December 31, 2020. As described in the Recent Key Events section, our objective was to introduce more customers to our offering during the year, rather than maximizing the revenue per customer as we continue to build brand awareness for our glasses offering.

Revenue increased by 9.6% to \$82,403 in the year ended December 31, 2021, compared to \$75,217 in the year ended December 31, 2020. On a Constant Currency Revenue basis, revenue increased by 15.1% in the year ended December 31, 2021, compared to the year ended December 31, 2020. The growth in our year ended December 31, 2021 revenue and Constant Currency Revenue is driven by continued increases in sales volumes from both returning customers and new customers. We significantly expanded our glasses offering and invested in marketing efforts to acquire new customers through our brand awareness campaigns including investments in TV advertising, social media and event sponsorship.

Gross Profit

Gross profit increased by \$1,368 to \$6,104 in the three months ended December 31, 2021 compared to \$4,736 in the three months ended December 31, 2020 an increase of 28.9%. In the fourth quarter of 2021, we continued to moderate our promotions and focus on generating higher margin orders to expand our gross margins while continuing to grow our customer base. Consequently, gross margin expanded by 680 bps to 30.1% in the fourth quarter of 2021 compared to 23.3% in the fourth quarter of 2020.

Gross profit decreased by \$497 to \$20,891 in the year ended December 31, 2021, compared to \$21,388 in the year ended December 31, 2020. The change is primarily driven by promotions designed to acquire new subscription and glasses customers as we transition transactional customers into recurring revenue customers and introduce our high-quality glasses offering to the market. Gross profit margin was 25.4% of revenue in the year ended December 31, 2021, compared to 28.4% in the year ended December 31, 2020, as the Company focused on acquiring a record number of new eyeglasses customers who we believe will become long term customers and generate recurring, annuity-like revenue. The change in gross profit margin in 2021 was driven by introductory offers engineered to attract new customers to join our subscription Autoship program and purchase glasses, resulting in the increase in revenue and orders. Our investment in promotions was successful as delivered orders grew 23.1% in 2021 as compared to 2020 attracting record new customers of 271,000. We continue to view this investment in building our glasses business and the transition from transactional to subscription revenues to be accretive to shareholders and the Company in the long-term while also balancing our promotions offering to acquire and retain customers. We are pleased to have delivered on near-term margins rising to 25-30% and our goal continues to be to generate longer-term margins of 35-40% as our glasses business and returning Autoship customers become a larger portion of total revenue.

Fulfillment

Fulfillment expenses increased by \$504 to \$2,728 in the three months ended December 31, 2021, compared to \$2,224 in the three months ended December 31, 2020. Fulfillment expense as a percentage of revenue increased to 13.5% in the three months ended December 31, 2021, compared to 11.0% in the three months ended December 31, 2020. The increase in fulfillment expenses is primarily due to an increase in orders fulfilled by our fulfillment center and we invested in faster shipment options to address carrier delays during the holiday periods in the last quarter of 2021.

Fulfillment expenses increased by \$3,869 to \$11,467 in the year ended December 31, 2021, compared to \$7,598 in year ended December 31, 2020. Fulfillment expense as a percentage of revenue increased to 13.9% in the year ended December 31, 2021, compared to 10.1% in the year ended December 31, 2020. The change was primarily due to expansion of our staff at our distribution centers, manufacturing and customer service to meet the increase in our patient orders and in anticipation of our expansion into a larger facility that was completed in the third quarter of 2021. We continue to expect improvement in our fulfillment expenses as a percentage of revenue as we continue to automate and optimize our consolidated, state-of-the-art manufacturing and distribution center.

Marketing

Marketing expenses increased by \$1,407 to \$3,873 in the three months ended December 31, 2021 compared to \$2,466 in the three months ended December 31, 2020. Marketing expense as a percentage of revenue was 19.1% in the three months ended December 31, 2021, compared to 12.2% in the three months ended December 31, 2020. In the fourth quarter of 2021, we continued to invest in focused and deliberate marketing spend in our direct social media presence, direct social shopping platforms and personnel engaged in marketing and selling activities as we invest in customer acquisition and retention as we continued to invest in customer acquisition and retention.

Marketing expenses increased by \$7,686 to \$15,522 in the year ended December 31, 2021, compared to \$7,836 in the year ended December 31, 2020. Marketing expense as a percentage of revenue was 18.8% in the year ended December 31, 2021, compared to 10.4% in the year ended December 31, 2020. In 2021, we invested \$3,248 in brand and content creation for our KITS brand, including film and other brand assets. The increase in marketing costs was driven by deliberate investment in media spend to broaden our brand awareness and top of funnel activities, including the TV network airtime and event sponsorship that we had secured in 2021. We continue to believe that greater investments in brand at this critical early stage of category evolution and marketing will generate outsized future returns to companies who can deliver excellent customer experiences and attract new customers and engage our current Active Customers. Our 2021 investment in our brand was successful as year-over-year glasses delivered quadrupled, eyeglass purchases by repeat customers increased by over 500% and our 2-year Active Customers increased to 680,000 in 2021 up from 500,000 in 2020.

General and administrative

General and administrative expenses increased by \$143 to \$2,153 in the three months ended December 31, 2021, compared to \$2,010 in the three months ended December 31, 2020. Excluding foreign exchange, general and administrative expenses increased by \$608 to \$2,150 in the three months ended December 31, 2021, compared to \$1,542 in the three months ended December 31, 2020. The change is primarily due to the continued expansion of our team and continuing costs associated becoming public company offset by one-time IPO costs incurred in 2020.

General and administrative expenses increased by \$4,404 to \$8,570 in the year ended December 31, 2021, compared to \$4,166 in the year ended December 31, 2020. Excluding foreign exchange, general and administrative expenses increased by \$5,124 to \$9,282 in the year ended December 31, 2021, compared to \$4,158 in the year ended December 31, 2020. In 2021, we recorded \$1,604 of costs relating to professional fees, consulting, legal, and accounting incurred as a result of the IPO. The majority of these IPO-related costs are not expected to recur. The remaining increase in expenses is driven by expenses related to the continued expansion of our team, technology development costs and continuing costs associated with becoming a public company. We continue to expect that as a percentage of revenue, general administrative expenses, excluding the impacts of foreign exchange, will decline as we continue to scale.

Adjusted EBITDA

Adjusted EBITDA was relatively consistent at \$(1,177) in the three months ended December 31, 2021, compared to \$(1,220) in the three months ended December 31, 2020. Adjusted EBITDA as a percentage of revenue is (5.8)% in the three months ended December 31, 2021, compared to (6.0)% in the three months ended December 31, 2020.

Adjusted EBITDA was \$(8,004) in the year ended December 31, 2021, compared to \$3,548 in the year ended December 31, 2020. Adjusted EBITDA as a percentage of revenue is (9.7)% in the year ended December 31, 2021, compared to 4.7% in the year ended December 31, 2020.

The change in Adjusted EBITDA is primarily due to expanding our platform by building scalable infrastructure and capacity as we invest ahead of expected future growth. This includes investments in hiring the best talent, expanding our customer service and optical lab capabilities, and marketing to drive customer acquisition, as well as the additional factors discussed in greater detail above.

Finance costs and IPO-related fair value accrual for preferred shares

Finance costs in the three months ended December 31, 2021 decreased to \$400 from \$1,433 in the three months ended December 31, 2020. The change is primarily due to the one-time non-cash finance cost relating to the accrual of the one-time payment at maturity to BDC Capital Inc. ("BDC") in the fourth quarter of 2020.

Finance costs in the year ended December 31, 2021, decreased to \$1,798 from \$3,090 in the year ended December 31, 2020. Finance costs in year ended December 31, 2021 includes a one-time prepayment penalties paid to BDC of \$135, a one-time non-cash modification loss of \$590 due to the change in the repayment of the BDC Loan made upon our initial public offering on January 19, 2021 ("IPO"), and a gain on extinguishment of the preferred shares liability of \$350. We do not expect these one-time expenses to recur. Interest expense paid on the BDC Loan decreased by \$489 in the year ended December 31, 2021 due to lower principal outstanding.

As of January 18, 2021, the Company no longer has any preferred shares outstanding and no IPO-related fair value accrual for preferred shares were recognized in 2021.

Income Taxes

Income taxes changed by \$1,507 to an income tax expense of \$442 in the three months ended December 31, 2021, compared to an income tax recovery of \$1,065 in the three months ended December 31, 2020, primarily as a result of the recognition of deferred tax recovery on future tax benefits arising from the share issuance costs recognized within equity.

Income taxes changed by \$3,721 to an income tax recovery of \$4,226 in the year ended December 31, 2021, compared to an income tax recovery of \$505 in the year ended December 31, 2020, as a result of lower taxable earnings during the year within the operating entity.

Net loss

Net loss is \$4,054 in the three months ended December 31, 2021, a change of \$2,162 compared to a net loss of \$6,216 in the three months ended December 31, 2020. Net loss is \$14,617 in the year ended December 31, 2021, a change of \$8,034 compared to a net loss of \$6,583 in the year ended December 31, 2020.

The increase in net loss is primarily due an increase in operating costs to support our continuing growth and costs incurred relating to our recently completed initial public offering. Refer to the factors discussed above related to additional costs incurred to expand our ability to serve our growing base of customers.

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							
	December 31, 2021	September 30, 2021	June 30, 2021	March 31, 2021	December 31, 2020	September 30, 2020	June 30, 2020	March 31, 2020
Revenue.....	\$ 20,270	\$ 20,032	\$ 21,669	\$ 20,432	\$ 20,283	\$ 20,201	\$ 20,322	\$ 14,412
Net income (loss).....	\$ (4,054)	\$ (2,137)	\$ (4,858)	\$ (3,568)	\$ (6,216)	\$ (132)	\$ 221	\$ (456)
Weighted average number of shares								
Basic.....	31,156,898	31,131,320	31,070,766	27,090,885	9,200,000	9,200,000	9,200,000	9,200,000
Diluted (a)	31,156,898	31,131,320	31,070,766	27,090,885	9,200,000	9,200,000	23,000,000	9,200,000
Net income per share								
Basic.....	\$ (0.13)	\$ (0.07)	\$ (0.16)	\$ (0.13)	\$ (0.68)	\$ (0.01)	\$ 0.02	\$ (0.05)
Diluted.....	\$ (0.13)	\$ (0.07)	\$ (0.16)	\$ (0.13)	\$ (0.68)	\$ (0.01)	\$ 0.02	\$ (0.05)
Average US\$/Canadian dollar exchange rate (b)	\$ 1.2605	\$ 1.2592	\$ 1.2284	\$ 1.2664	\$ 1.3029	\$ 1.3326	\$ 1.3865	\$ 1.3432

Notes:

- (a) An additional 13,800,000 of converted Class B preferred shares are included in the diluted weighted average number of shares only when such shares are not anti-dilutive in nature.
- (b) 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 through various marketing channels;
- the accelerated secular change to ordering eyewear products online;
- the successful growth of our Kits.com and Kits.ca sites and amalgamation of some of our other web properties;
- the rollout of our own KITS-branded glasses offering and expanded lens offering;
- the introduction and continued focus to grow our Autoship subscription program in 2020; and
- the continual increase in branded eyeglass frames selection and inventory.

Net Income (loss)

Net income 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 completed IPO in Q1 2021;
- the increased investment in our Autoship subscription business and glasses offering;
- the increased 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 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 allocated 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 for general corporate purposes. Our primary source of liquidity is funds generated by operating activities and proceeds from our recent 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, as well as 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 December 31, 2021 was \$18,889 mainly due to cash received from our recently completed IPO. Similar to other e-commerce businesses, customers pay for purchases upfront and we deliver goods from inventory or from suppliers. Overall, on purchase and expenses, we have favorable payment terms from suppliers, which usually provides us with a net source of cash from working capital. In the year ended December 31, 2021, we invested in the build out of our optical lab at our new fulfillment facility, in inventory and in our flagship first KITS community store in anticipation of future growth and to provide customers with a great experience, which together, resulted in a net use of funds. 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 we 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 (the "BDC Loan") with BDC on March 26, 2019, with a repayment date of March 15, 2026. Effective as of January 15, 2021, the BDC Loan bear interest at BDC's floating rate minus 1%, plus a variance of 4.45% per annum and is payable on a monthly basis. As of December 31, 2021, BDC's floating rate was 4.55%. The BDC Loan is secured by a first ranking security interest in all present and after acquired personal property and all present and future intellectual property of the Company. The Company is subject to various covenants under the BDC Loan, including requirements to maintain certain financial ratios. As at December 31, 2021, the loan is in good standing and the Company is in compliance with the debt covenants.

As at December 31, 2021, the carrying amount of the BDC Loan is \$14,342 (2020: \$21,322). The Company made a prepayment of \$4,500 in January 2021 towards the BDC Loan principal. The repayment schedule of the BDC Loan was revised accordingly to reflect this prepayment made and the balloon payment was reduced by the prepayment amount.

As at January 18, 2021, the Company no longer has any preferred shares outstanding. 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 December 31, 2021, the carrying amount of the Promissory Note is \$1,744 (2020: \$nil). During the year ended December 31, 2021, no quarterly principal was paid to the Promissory Note holders.

Cash Flows

The following table presents cash and cash equivalents as at December 31, 2021 and December 31, 2020:

	Three Months Ended		Year Ended	
	December 31, 2021 <i>(unaudited)</i>	December 31, 2020 <i>(unaudited)</i>	December 31, 2021 <i>(audited)</i>	December 31, 2020 <i>(audited)</i>
Net cash provided by (used in) operating activities....	\$ 1,299	\$1,523	\$ (19,461)	\$ 4,182
Net cash provided by (used in) financing activities.....	(1,724)	(1,194)	41,478	(4,838)
Net cash provided by (used in) investing activities.....	(134)	(63)	(3,633)	(225)
Increase (decrease) in cash.....	(559)	266	18,384	(881)
Cash and cash equivalents, end of period	\$ 20,505	\$ 2,308	\$ 20,505	\$ 2,308

Analysis of Cash Flows for the year ended December 31, 2021, compared to year ended December 31, 2020 and three months ended December 31, 2021, compared to three months ended December 31, 2020

Cash Flows from Operating Activities

Cash flows provided by operating activities was \$1,299 in the three months ended December 31, 2021, compared to cash provided by operating activities of \$1,523 in the three months ended December 31, 2020, changes of \$224. The decrease in cash provided by operating activities for the three months ended December 31, 2021 is due to our continued expansion of our team and additional marketing expenses incurred to grow our KITS brand and awareness.

Cash flows used in operating activities was \$19,461 in the year ended December 31, 2021, compared to cash provided by operating activities of \$4,182 in the year ended December 31, 2020, changes of \$23,643. The change in operating cash flows for the year ended December 31, 2021 is mainly attributable to the higher investment activities incurred, investments incurred in the continued expansion of our team, increased cash outflow for inventory purchases and cash paid for brand assets expensed and marketing expenses and one-time IPO related costs.

Cash Flows Used in Financing Activities

Cash flows used in financing activities increased by \$530 to \$1,724 in the three months ended December 31, 2021, compared to \$1,194 of cash flows used in financing activities in the three months ended December 31, 2020. The increase in cash flows used in financing activities in the three months ended December 31, 2021 is attributable to the higher lease payments for equipment and leases as we completed in our move to our new onshore optical lab in Q3 2021.

Cash flows provided by financing activities increased by \$46,316 to \$41,478 in the year ended December 31, 2021, compared to \$4,838 of cash flows used by financing activities in the year ended December 31, 2020. The increase in cash flows provided by financing activities for the year ended December 31, 2021 is primarily due to the receipt of proceeds from our IPO offset by cash outflows of \$4,635 pertaining to the one-time BDC Loan principal prepayment and prepayment penalties.

Cash Flows Used in Investing Activities

Cash flows used in investing activities increased by \$71 to \$134 in the three months ended December 31, 2021, compared to \$63 of cash flows used in investing activities in the three months ended December 31, 2020. The increase in cash flows used in investing activities in the three months ended December 31, 2021 is primarily due to additional capital equipment purchases made in the fourth quarter of 2021.

Cash flows used in investing activities increased by \$3,408 to \$3,633 in the year ended December 31, 2021, compared to \$225 of cash flows used in investing activities in the year ended December 31, 2020. The increase in cash flows used in investing activities in the year ended December 31, 2021 is primarily due to the capital equipment purchased as part of the new optical lab buildout and leasehold improvements made to our first KITS community retail store.

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 December 31, 2021:

Contractual obligations	Payments Due by Period (\$ in thousands)				
	Contractual cash flows	Less than 1 year	1-3 years	4-5 years	After 5 years
Accounts payable	\$ 10,298	\$ 10,298	\$ -	\$ -	\$ -
Loan Principal amount	14,386	3,000	6,000	5,386	-
Loan Interest	2,262	922	1,124	216	-
Promissory note	2,412	-	-	2,412	-
Lease liability	9,843	1,049	2,172	1,952	4,670
Total Contractual obligations	\$ 39,201	\$ 15,269	\$ 9,296	\$ 9,966	\$ 4,670

As of December 31, 2021, 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, account receivables, accounts payable, accrued liabilities, the BDC Loan and the Promissory Note.

The carrying value of cash and cash equivalents, account receivables, accounts payable, and accrued liabilities approximate their fair value because of the short-term nature of these financial instruments. These financial instruments, the BDC Loan and the Promissory Note are classified as financial assets and liabilities at amortized cost. There are no financial liabilities that are measured at fair value as at December 31, 2021.

BDC Loan

As at December 31, 2021, the carrying amount of the BDC Loan was \$14,342. For the year ended December 31, 2021, the Company recognized \$1,105 of interest expense, prepayment penalties of \$nil and \$135 and a one-time, non-cash cost of \$590 relating to a modification loss because of the prepayment of the BDC Loan principal.

Preferred shares and the Promissory Note

As at December 31, 2021, the Company no longer has any preferred shares outstanding. During the year ended December 31, 2021, the holders of preferred shares provided their notice of conversion to the Company. These preferred shares were converted to common shares of the Company ("Common Shares") and the Company issued a Promissory Note to the holders for the accrued and unpaid dividends.

As at December 31, 2021, the carrying value of the Promissory Note liability is \$1,744. For year ended December 31, 2021, we recognized \$123 relating to the accretion expense on the Promissory Note and a gain of \$350 on the extinguishment of Class A, B and C preferred shares.

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. 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 Risks

The presentation currency for our consolidated financial statements is the Canadian dollar. Because we recognize sales in the United States in U.S. dollars, if the U.S. dollar weakens against the Canadian dollar it would have a negative impact on our U.S. operating results upon translation of those results into Canadian dollars for the purposes of financial statement consolidation. We may face similar risks in other foreign jurisdictions where sales are recognized in foreign currencies. A 10% strengthening in the Canadian dollar against the U.S. dollar on net monetary accounts would, with all other variables being constant, have an approximately unfavorable impact of \$203 on 2021 consolidated loss.

Interest Rate Risks

We are exposed to changes in interest rates on our cash and cash equivalents, loans and borrowings. Debt issued at variable rates exposes us to cash flow interest rate risk. During the period, we had a variable interest rate loan from BDC. The principal amount outstanding under the loan was \$12.9 million as at December 31, 2021 which currently bears interest at 8.0%. A 1.00% increase in the floating interest rate would have increased annual interest payable by \$118 and finance costs by \$126 in 2021.

Credit Risks

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

Liquidity Risk

Liquidity risk is the risk that we cannot meet a demand for cash or fund our obligations as they come due. We manage liquidity risk by 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 year ended December 31, 2021, the Company paid rent of \$76 (2020: \$77) to a company under common control of Arshil Abdulla and recorded rent of \$118 (2020: \$120) to a company under common control of Roger Hardy. 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. The leases continue on a year-to-year basis until and amounts are payable monthly. During the year ended December 31, 2021, the Company recorded \$118 (2020: \$7) of Board fees and advisory fees to its directors (the "Directors") and \$200 of share-based compensation (2020: \$17). \$22 of Board fees remain unpaid as at December 31, 2021. During the year ended December 31, 2021, the Company purchased inventory of \$nil (2020: \$56) from a company owned by the minority shareholders of the Company. These amounts had been included in cost of sales and are based on market/third party invoiced rates for the inventory purchased. 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 Directors, the Chief Executive Officer, and the executives who report directly to the Chief Executive Officer. As at December 31, 2021, the Company recorded a bonus payable of \$290 (2020: \$50) to key management. Key management compensation comprises of wages and short-term employee benefits. For the year December 31, 2021, the Company paid \$1,657 (2020: \$804) of wages and short-term employee benefits to key management and recorded \$960 (2020: \$538) of key management share-based compensation.

Subsequent Events

On March 8, 2022, the Company's Board of Directors approved the grant of 517,500 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. These options will be issued upon TSX approval. A total of 12,566 share options were forfeited after December 31, 2021.

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 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, is 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 determining the appropriate lease term on a lease-by-lease basis. Changes in the economic environment or changes in the retail industry may impact the assessment of the lease term and any changes in the estimate of lease terms may have a material impact on the Company's consolidated statements of financial position.

The critical assumptions and estimates used in determining the present value of future lease payments require us to estimate the incremental borrowing rate specific to each leased asset or portfolio of leased assets. We determine the incremental borrowing rate of each leased asset or portfolio of leased assets by incorporating the Company's creditworthiness, the security, term, and value of the underlying leased asset, and the economic environment in which the leased asset operates. The incremental borrowing rates are subject to change mainly due to macroeconomic changes in the environment.

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

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

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 consolidated financial statements.

Current Share Information

As at March 9, 2021, an aggregate of 31,156,380 Common Shares were issued and outstanding. There were no preferred shares issued and outstanding as of such date.

As at March 9, 2021, there were 2,904,758 options and 101,020 restricted share rights outstanding under the Company's equity incentive plans, of which 1,398,095 options and 85,336 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".