

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2023

The following Management's Discussion and Analysis ("MD&A") dated November 7, 2023 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, 2023 and September 30, 2022, 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, 2022, which was filed on March 9, 2023 (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](http://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 makes eyecare easy. KITS is a fast growing, vertically integrated, vision brand providing eyecare for eyes everywhere. We offer our KITS community access to a vast selection of the highest-quality contact lenses and eyeglasses, including our own exclusive KITS designed products, and an advanced suite of online vision tools. Our efficient digital platform, backed by our in-house design, distribution, and state-of-the-art manufacturing, removes intermediaries and enables us to offer the highest quality products, fast service, great prices, and deliver made-to-order personalized products with incredible care and accuracy. We strive to delight our core customers with 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

***This quarter was marked by several highlights: year-over-year revenue growth of 32%, gross margin expansion of 370 bps, and glasses revenue growth of over 25%. KITS achieved a new record quarter with \$31.2 million in revenue while achieving our fourth consecutive quarter of positive Adjusted EBITDA***

In the third quarter of 2023, we achieved another record revenue of \$31.2 million, representing an annualized revenue run rate of \$125 million, and year-over-year growth of 32.1%; also representing a 55.3% growth over the business we completed our initial public offering in the first quarter of 2022. Revenue for the nine months ended September 30, 2023 increased to a record of \$88.8 million compared to \$65.4 million during the same period in 2022. For the three months ended September 30, 2023, we delivered over 200,000 patient orders at a record high average order value of \$156, representing an increase of 14.7% compared to the average order value in the three months ended September 30, 2022. This growth illustrates the continued momentum of the KITS brand and the resilience of our differentiated business model.

We increased our 2-year Active Customers to over 830,000 as of September 30, 2023, representing an 8.5% year-over-year increase with our recurring core customers contributing over 63.9% of third quarter revenue. Once acquired this subscription and subscription like core customer revenue continues to compound over the years to come, we believe we have likely underestimated the lifetime value of this strongly recurring annuity which continues to return and scale. Our eyecare offering resonates with both new and repeat customers and we served over 75,000 new customers in the three months ended September 30, 2023 which contributed to our record top line results.

Our vertically integrated, high-capacity onshore optical lab allows us to deliver prescription glasses with a "wow" experience to customers in as fast as one day. We believe we have built a highly scalable manufacturing and distribution foundation from which we can grow and that will require very limited investment as revenues continue to scale. Our commitment to delivering outstanding quality and speed has led to 25.1% growth in glasses revenue, reaching \$4.0 million in the third quarter of 2023 compared to \$3.2 million in the same period last year. This growth is a testament to our customers' growing preference for KITS, seeking the perfect blend of value, convenience, and style. We fulfilled 37,000 glasses to repeat glasses customers in the third quarter of 2023, representing 117.6% year-over year growth. 89% of these glasses were KITS branded frames, highlighting the brand's continued strong appeal and recognition in the market.

Gross profit for the three months ended September 30, 2023 increased to a record \$10.7 million, a 48.0% increase over gross profit of \$7.2 million in the three months ended September 30, 2022. As a percentage of revenue, gross margin for the three months ended September 30, 2023 strengthened by 370 basis points to 34.3% up from 30.6% a year ago. This gross margin expansion resulted from benefits of scale and decreased promotional activity as KITS eyecare continues building a trusted reputation among consumers.

For the three and nine months ended September 30, 2023, we generated positive free cash flow from operations of \$1.3 million and \$4.7 million respectively and maintained a strong cash balance of \$19.3 million. We also recorded our fourth consecutive quarter of positive Adjusted EBITDA of \$0.6 million, as we continue to focus on growing revenue profitably. The Company continued to build partnerships with Johnson & Johnson and CooperVision in the third quarter of 2023, including joint marketing efforts, which contributed to our sales growth in contact lenses.

## 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, 2023 and September 30, 2022.

	Three Months Ended		Nine Months Ended	
	September 30, 2023	September 30, 2022	September 30, 2023	September 30, 2022
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
<b>Financial and Operating Data</b>				
Revenue .....	\$ 31,150	\$ 23,578	\$ 88,847	\$ 65,400
Net income (loss).....	\$ 480	\$ 20	\$ (1,724)	\$ (3,167)
Net income (loss) per share.....				
Basic .....	\$ 0.02	\$ 0.00	\$ (0.05)	\$ (0.10)
Diluted .....	\$ 0.01	\$ 0.00	\$ (0.05)	\$ (0.10)
Non-IFRS Measures (a):				
Constant currency revenue.....	\$ 30,561	\$ 23,578	\$ 85,944	\$ 65,400
EBITDA .....	\$ 1,444	\$ 1,050	\$ 928	\$ (532)
Adjusted EBITDA .....	\$ 605	\$ (795)	\$ 1,422	\$ (2,268)
Adjusted EBITDA Margin % .....	1.9%	(3.4)%	1.6%	(3.5)%

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, 2023	September 30, 2022	September 30, 2023	September 30, 2022
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
<b>Reconciliation of constant currency revenue</b>				
Revenue .....	\$ 31,150	\$ 23,578	\$ 88,847	\$ 65,400
Foreign exchange impact .....	(589)	-	(2,903)	-
Constant Currency Revenue .....	\$ 30,561	\$ 23,578	\$ 85,944	\$ 65,400
Change in constant currency .....	\$ 6,983		\$ 20,544	
Change in constant currency % .....	29.6%		31.4%	

**"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, 2023 (unaudited)	September 30, 2022 (unaudited)	September 30, 2023 (unaudited)	September 30, 2022 (unaudited)
<b>Reconciliation of Adjusted EBITDA</b>				
Net income (loss) for the period.....	\$ 480	\$ 20	\$ (1,724)	\$ (3,167)
Add back:.....				
Income taxes .....	72	(250)	(468)	(1,148)
Finance costs – net .....	118	396	725	1,185
Depreciation and amortization.....	774	884	2,395	2,598
EBITDA.....	\$ 1,444	\$ 1,050	\$ 928	\$ (532)
Add back				
Share-based compensation (a).....	\$ (118)	\$ 308	\$ 394	\$ 976
Exchange loss / (gain) .....	(725)	(2,156)	89	(2,733)
One-time costs (b) .....	4	3	11	21
Adjusted EBITDA.....	\$ 605	\$ (795)	\$ 1,422	\$ (2,268)
Revenue .....	\$ 31,150	\$ 23,578	\$ 88,847	\$ 65,400
Adjusted EBITDA Margin % (c).....	1.9%	(3.4)%	1.6%	(3.5)%

Notes:

- Represents non-cash share-based compensation expense associated with restricted share rights (“RSRs”) and options recognized in the period.
- One-time IPO directors’ and officers’ insurance costs which is expensed over the insurance coverage period.
- 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 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](http://www.sedar.com).

### **Repeat Customer Behaviour**

As at September 30, 2023, we had over 830,000 2-year Active Customers, up from 765,000 as at September 30, 2022. We continue to successfully attract a record number of new customers and serve past customers. Repeat revenue in the three months ended September 30, 2023 was a record of over \$19.9 million, an increase of \$5.0 million from the same period in 2022. In this quarter, we continued to focus our marketing spend on attracting higher value new orders and orders from repeat customers. We served a total of 75,000 new customers in the third quarter of 2023.

A significant component of our repeat business is driven by 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.

### **Growth of Our Glasses Business**

The North American glasses market remains dominated by one large global player whose distribution is a highly fragmented dealer network, providing an attractive opportunity for KITS to provide customers with speedy bespoke direct to consumer experiences and the highest quality products at remarkable prices. We believe that by both designing and manufacturing our glasses in-house we can deliver fast, affordable, and superior customer experiences. Our direct-to-consumer model combined with our vertically integrated manufacturing operations enable KITS to control both the cost of acquisition and the cost of production and pass along these savings and convenience to our customers. We believe we are the most efficient model in the category given we are not burdened with legacy infrastructure and have built highly automated, large scale manufacturing facilities.

Revenue from eyeglasses delivered increased by 25.1% to \$3,967 for the three months ended September 30, 2023, from \$3,170 for the three months ended September 30, 2022.

We continued to attract new and repeat glasses customers with our expansive inventory and selection. In the third quarter of 2023, returning customers significantly contributed to the growth of our revenue through higher order values. The increase in revenue can be attributed to both returning customers opting for higher value orders and an increase in lens upgrades compared to the previous periods. These positive trends not only boost our revenue but also serve as a testament to the strong appeal of our product offerings among our valued customers. Glasses delivered to repeat eyeglasses customers increased year-over-year from over 17,000 to over 37,000 glasses in the third quarter of 2023, an increase of 117.6%. We ended the quarter with over 261,000 frames in stock and over 1,950 styles. Our existing customers are compelled to return by the convenience, quality, and affordability of our eyeglasses offering.

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

### *Revenue*

We derive revenue primarily from sales of our own brand of KITS contact lenses and glasses, as well as third-party contact lenses and glasses. Revenue is recognized when products are delivered, net of promotional discounts and refund allowances. Revenue is primarily driven by the number of Active Customers and the frequency with which customers repurchase products from KITS.

### *Cost of Sales*

Cost of goods sold consists of the cost of materials, assembly, KITS and third-party 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 continue to expand our fulfillment network to accommodate a greater selection and facilitate faster delivery times. 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*

We are focused on providing exceptional customer service to drive customer loyalty and brand awareness. Organic word-of-mouth and our loyal repeat customers are essential to our growth. 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 share their KITS experience with friends and family. Most of our customers arrive at our sites directly which we believe is fueled by word-of-mouth and customer engagement. Since launching glasses, we have continued to see our NPS increase steadily. Our goal is to maintain the highest customer satisfaction metrics in the category.

Marketing includes brand development, advertising and payroll and related expenses for personnel engaged in marketing and selling activities. We direct customers to our platforms through a number of marketing channels, such as media 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 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, 2023 and September 30, 2022 has been derived from our condensed interim consolidated financial statements and related notes.

Financial and Operating Data	Three Months Ended		Nine Months Ended	
	September 30, 2023 (unaudited)	September 30, 2022 (unaudited)	September 30, 2023 (unaudited)	September 30, 2022 (unaudited)
<b>CAD \$000s, unless otherwise noted</b>				
Revenue .....	\$ 31,150	\$ 23,578	\$ 88,847	\$ 65,400
Cost of sales .....	20,473	16,365	59,134	45,057
Gross profit .....	10,677	7,213	29,713	20,343
Fulfillment .....	3,931	3,156	11,190	9,124
Marketing .....	4,255	3,346	12,356	9,374
General and administrative .....	2,033	2,124	5,937	6,013
Exchange (gain)/loss .....	(725)	(2,156)	89	(2,733)
Depreciation and amortization .....	513	577	1,608	1,695
Operating income .....	670	166	(1,467)	(3,130)
Finance costs, net .....	118	396	725	1,185
Income before income taxes .....	\$ 552	\$ (230)	\$ (2,192)	\$ (4,315)
Income tax expense (recovery) .....	72	(250)	(468)	(1,148)
Net loss .....	\$ 480	\$ 20	\$ (1,724)	\$ (3,167)
Non-IFRS measures (a) .....				
Constant currency revenue .....	\$ 30,561	\$ 23,578	\$ 85,944	\$ 65,400
EBITDA .....	\$ 1,444	\$ 1,050	\$ 928	\$ (532)
Adjusted EBITDA .....	\$ 605	\$ (795)	\$ 1,422	\$ (2,268)
Adjusted EBITDA Margin % .....	1.9%	(3.4%)	1.6%	(3.5) %

Notes:

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

### Three and Nine Months Ended September 30, 2023, Compared to Three and Nine Months Ended September 30, 2022

The following section provides an overview of our financial performance during the three and nine months ended September 30, 2023 to the three and nine months ended September 30, 2022. 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 \$31,150 and \$88,847 in the three and nine months ended September 30, 2023, an increase of \$7,572 and \$23,447, compared to \$23,578 and \$65,400 in the three months and nine months ended September 30, 2022. On a Constant Currency Revenue basis, revenue was \$30,561 and \$85,944 in the three and nine months ended September 30, 2023 an increase of 29.6% and 31.4%, compared to the three and nine months ended September 30, 2022.

Revenue from our eyeglasses delivered increased 25.1% to \$3,967 and 26.4% to 10,862 for the three and nine months ended September 30, 2023, an increase of \$797 and \$2,269 from \$3,170 and \$8,593 for the three and nine months ended September 30, 2022. The increase in revenue from eyeglasses is attributable to the growing base of repeat customers and an increase in the average glasses order revenue. 37,000 eyeglasses were delivered to returning customers in the three months ended September 30, 2023 compared to 17,000 eyeglasses in the three months ended September 30, 2022 and 113,000 eyeglasses in the nine months ended September 30, 2023 compared to 52,000 eyeglasses in the nine months ended September 30, 2022. In addition to strengthening repeat rate, repeat customers are placing orders with higher average order values compared to their initial purchases. This trend is primarily driven by their increased propensity to invest in lens upgrades, contributing to the growth in average order value.

### *Gross Profit*

Gross margins expanded to 34.3% and 33.4% for the three and nine months ended September 30, 2023 from 30.6% and 31.1% in the three and nine months ended September 30, 2022. Gross profit increased by 48.0% and 46.1% to \$10,677 and \$29,713 in the three and nine months ended September 30, 2023, compared to \$7,213 and \$20,343 in the three and nine months ended September 30, 2022. Gross margins expanded as a result of higher average order values from loyal returning customers generating higher gross margins with their subsequent orders and a reduction in initial discounts being offered to new customers in the quarter.

### *Fulfillment*

Fulfillment expenses were \$3,931 and \$11,190 in the three and nine months ended September 30, 2023, compared to \$3,156 and \$9,124 in the three and nine months ended September 30, 2022. Fulfillment expenses as a percentage of revenue improved to 12.6% and 12.6% in the three and nine months ended September 30, 2023, compared to the three months and nine months ended September 30, 2022 at 13.4% and 14.0%. We were able to continue to add automation to our consolidated, state-of-the-art manufacturing and distribution center and achieve shipping efficiencies.

### *Marketing*

Marketing expenses were \$4,255 and \$12,356 in the three and nine months ended September 30, 2023, compared to \$3,346 and \$9,374 in the three and nine months ended September 30, 2022. Marketing expenses as a percentage of revenue improved to 13.7% and 13.9% in the three and nine months ended September 30, 2023, compared to 14.2% and 14.3% in the three and nine months ended September 30, 2022. The reduction in marketing expenses as a percentage of revenue demonstrates the growing value of our brand. Active customers increased by 8.5% to 830,000 in the third quarter of 2023. Average order value for the three months ended September 30, 2023 increased to \$156 a 14.7% increase as compared to \$136 for the three months ended September 30, 2022, and repeat customer contribution to approximately 64% of revenue. 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 as a percentage of revenue improved to 6.5% and 6.7% in the three and nine months ended September 30, 2023, compared to 9.0% and 9.2% in the three and nine months ended September 30, 2022. General and administrative expenses decrease by \$91 and \$76 to \$2,033 and \$5,937 in the three and nine months ended September 30, 2023, compared to \$2,124 and \$6,013 in the three and nine months ended September 30, 2022. The change in general and administrative expenses is outpaced by our revenue growth,

allowing us to leverage continued scale efficiencies and resulting in an improvement as a percentage of revenue.

#### *Exchange (gain)/loss*

Exchange gain decreased by \$1,431 and \$2,822 to \$725 and an exchange loss of \$89 in the three and nine months ended September 30, 2023, compared to exchange gain of \$2,156 and \$2,733 in the three and nine months ended September 30, 2022. The changes in exchange differences were due to the weakening of the US dollar against the Canadian dollar in the three and nine months ended September 30, 2023 as compared to a strengthening of the US dollar against the Canadian dollar in the same period of the prior year.

#### *EBITDA and Adjusted EBITDA*

EBITDA was \$1,444 and \$928 in the three and nine months ended September 30, 2023, compared to \$1,050 and \$(532) in the three and nine months ended September 30, 2022. Adjusted EBITDA was \$605 and \$1,422 in the three and nine months ended September 30, 2023, compared to \$(795) and \$(2,268) in the three and nine months ended September 30, 2022.

EBITDA as a percentage of revenue was 4.6% and 1.0% in the three and nine months ended September 30, 2023, compared to 4.5% and (0.8)% in the three and nine months ended September 30, 2022.

Adjusted EBITDA as a percentage of revenue was 1.9% and 1.6% in the three and nine months ended September 30, 2023, compared to (3.4)% and (3.5)% in the three and nine months ended September 30, 2022. The change in Adjusted EBITDA is primarily due to our continued focus on returning to profitability as we focused on generating the best returns on every order delivered to our customers, as well as the additional factors discussed in greater detail above.

#### *Finance costs*

Finance costs in the three and nine months ended September 30, 2023, decreased by \$(278) and by \$(460) from \$396 and \$1,185 in the three and nine months ended September 30, 2022 to \$118 and \$725. The change can be mainly attributed to the interest income received from our GIC (Guaranteed Investment Certificate) and lower interest expense on the BDC Loan (as defined below) due to lower principal outstanding as we continued to pay down \$750 per quarter on the principal of the BDC Loan.

#### *Income Taxes*

Income taxes changed by \$322 and \$680 to an income tax expense of \$72 and income tax recovery of \$468 in the three and nine months ended September 30, 2023, compared to an income tax recovery of \$250 and \$1,148 in the three and nine months ended September 30, 2022, primarily as a result of lower loss during the year within the operating entity.

#### *Net Income (loss)*

Net income(loss) was \$480 and \$(1,724) in the three and nine months ended September 30, 2023, a change of \$460 and \$1,443 compared to a net income(loss) of \$20 and \$(3,167) in the three and nine months ended September 30, 2022.

The change in net income was primarily due to an improvement in our revenue and gross margin offset by exchange differences recognized in 2023. Refer to the factors discussed above related to the variance in the costs incurred in the current quarter.

### **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, 2023	June 30, 2023	March 31, 2023	December 31, 2022	September 30, 2022	June 30, 2022	March 31, 2022	December 31, 2021
Revenue.....	\$ 31,150	\$ 30,030	\$ 27,667	\$ 26,239	\$ 23,578	\$ 21,770	\$ 20,052	\$ 20,270
Net income (loss).....	\$ 552	\$ (1,184)	\$ (1,020)	\$ (1,385)	\$ 20	\$ (923)	\$ (2,264)	\$ (4,054)
Weighted average number of shares								
Basic.....	31,398,691	31,382,798	31,366,932	31,311,166	31,283,213	31,344,634	31,241,716	31,156,898
Diluted.....	33,234,812	31,382,798	31,366,932	31,311,166	31,283,213	31,344,634	31,241,716	31,156,898
Net income per share								
Basic.....	\$ 0.02	\$ (0.04)	\$ (0.03)	\$ (0.04)	\$ 0.00	\$ (0.03)	\$ (0.07)	\$ (0.13)
Diluted.....	\$ 0.01	\$ (0.04)	\$ (0.03)	\$ (0.04)	\$ 0.00	\$ (0.03)	\$ (0.07)	\$ (0.13)
Average US\$/Canadian dollar exchange rate (a) .....	\$ 1.3458	\$ 1.3480	\$ 1.3528	\$ 1.3580	\$ 1.3050	\$ 1.2765	\$ 1.2666	\$ 1.2605

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 and returning customers;
- 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; 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 increased investment in our Autoship subscription business and glasses offering;
- the increased brand, marketing, and personnel costs to support our brand and corporate growth, and expanded operating capabilities including the optical lab expansion;
- the opening of our fulfillment and optical lab center; and
- the impact of foreign exchange on our revenue and costs.

**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 is 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, 2023 was \$10,128 compared to \$12,558 as at December 31, 2022. 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 (the "BDC Loan") for \$23.4 million with BDC Capital Inc. ("BDC") on March 26, 2019, with a repayment date of April 15, 2026 and a monthly contractual principal payment of \$250. As at September 30, 2023, the carrying amount of the BDC Loan is \$8,920 (2022: \$11,257). The change is due to the monthly principal repayment made during the period.

Effective as of January 15, 2021, the BDC Loan bears interest at the BDC floating rate plus a variance of 4.45% per annum and is payable on a monthly basis. The Company is required to make a one-time payment to BDC equal to 0.45% of the Company's annual gross sales at maturity. As at September 30, 2023, the interest rate was 12.75% (2022: 12.0%). 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, 2023, the BDC Loan is in good standing and the Company is in compliance with its debt covenants.

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, 2023, the carrying amount of the Promissory Note is \$1,996 (2022: \$1,884) and the change is due to accretion expenses recognized. No quarterly principal has been paid to the Promissory Note holders.

#### *Cash Flows*

The following table presents cash and cash equivalents as at September 30, 2023 and September 30, 2022:

	Three Months Ended		Nine Months Ended	
	September 30, 2023 (unaudited)	September 30, 2022 (unaudited)	September 30, 2023 (unaudited)	September 30, 2022 (unaudited)
Net cash provided by (used in) operating activities....	\$ 1,253	\$ 3,852	\$ 4,743	\$ 5,085
Net cash provided by (used in) financing activities ....	(1,261)	(1,298)	(3,865)	(3,833)
Net cash provided by (used in) investing activities ....	(110)	(88)	(399)	(197)
Increase (decrease) in cash .....	(118)	2,466	479	1,055
Cash and cash equivalents, end of period .....	\$ 19,299	\$ 20,402	\$ 19,299	\$ 20,402

**Analysis of Cash Flows for the three and nine months ended September 30, 2023, compared to the three and nine months ended September 30, 2022**

*Cash Provided by Operating Activities*

Cash flow provided by operating activities was \$1,253 and \$4,743 in the three and nine months ended September 30, 2023, compared to cash provided by operating activities of \$3,852 and \$5,085 in the three and nine months ended September 30, 2022, decreased by \$2,599 and \$342. The changes in cash generated in operating activities for the three and nine months ended September 30, 2023 are a result of the profitability of our operations and our working capital metrics. We expect cash flows from changes in working capital to vary from quarter to quarter as our business changes and due to the timing of ordinary course receipts and payments.

*Cash Used in Financing Activities*

Cash flows used in financing activities was \$1,261 and \$3,865 in the three and nine months ended September 30, 2023, compared to \$1,298 of cash flow used in and \$3,833 of cash flows provided by financing activities in the three and nine months ended September 30, 2022. Cash flows used in financing activities decrease by \$37 and increased by \$32 in the three and nine months ended September 30, 2023, due to a lower interest expense on the BDC Loan because of lower principal outstanding offset by a higher interest rate on the BDC Loan.

*Cash Used in Investing Activities*

Cash flow used in investing activities increased by \$22 and \$202 to \$110 and \$399 in the three and nine months ended September 30, 2023, compared to \$88 and \$197 of cash flow used in investing activities in the three and nine months ended September 30, 2022. The increase in cash flow used in investing activities in the three and nine months ended September 30, 2023, is primarily due to equipment purchases made during the period.

**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, 2023:

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 and accrued liabilities.....	\$ 17,742	\$ 17,742	\$ -	\$ -	\$ -
Loan Principal amount .....	8,957	3,000	5,957	-	-
Loan Interest .....	1,283	800	483	-	-
Promissory note .....	2,412	-	2,412	-	-
Lease liability .....	7,978	1,091	2,005	1,535	3,347
Total Contractual obligations	\$ 38,372	\$ 22,633	\$ 10,857	\$ 1,535	\$ 3,347

As of September 30, 2023, 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, 2023.

#### *BDC Loan*

As at September 30, 2023, the carrying amount of the loan was \$8,920 (2022: \$11,257). For the three and nine months ended September 30, 2023, the Company made repayments of \$1,011 and \$3,076 (2022: \$1,029 and \$3,039) and recognized \$236 and \$738 (2022: \$262 and \$741) of interest expense in finance costs. Interest expense is calculated by applying the effective interest rate of 10.40% (2022: 8.92%).

#### *Promissory Note*

As at September 30, 2023, the carrying value of the promissory note was \$1,996 (2022: \$1,884). During the three and nine months ended September 30, 2023, no quarterly principal was paid to the promissory holders and the Company recorded accretion expense of \$39 and \$112 (2022: \$35 and \$103) 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](http://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](http://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 unfavorable impact of \$519 on the nine months ended September 30, 2023 consolidated income.

#### *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 \$7,650 as at September 30, 2023 which currently bears interest at 12.75%. A 1.00% increase in the floating interest rate would have increased interest paid by \$92 and finance costs by \$89 for nine months ended September 30, 2023.

#### *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. 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, 2023, the Company recorded rent of \$nil and \$nil (2022: \$19 and \$58) to a company under common control of Arshil Abdulla (Chief Technology Officer of KITS), of which \$nil (2022:\$14) is unpaid as at September 30, 2023 and paid rent of \$nil and \$nil (2022: \$30 and \$90) to a company under 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 were based on market rates for these types of services and were terminated as of December 31, 2022. During the three and nine months ended September 30, 2023, the Company recorded \$31 and \$93 (2022: 31 and \$68) of Board fees to its directors (the “Directors”) and \$56 and \$169 (2022: \$56 and \$156) of

share-based compensation. \$31 of Board fees remain unpaid as at September 30, 2023. 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 and officers of the Company. Key management compensation comprises of wages and employee benefits. For the three and nine months ended September 30, 2023, the Company paid \$460 and \$1,426 (2022: \$400 and \$1,200) of wages and employee benefits to key management and recorded key management share-based (recovery)/expense \$(246) and \$29 (2022: \$181 and \$588).

#### **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 7, 2023, an aggregate of 31,411,332 Common Shares were issued and outstanding. There were no preferred shares issued and outstanding as of such date.

As at November 7, 2023, there were 2,789,974 options and 11,115 restricted share rights outstanding under the Company's equity incentive plans, of which 2,442,915 options and 11,115 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](http://www.sedar.com). Our Common shares are listed for trading on the TSX under the symbol "KITS".