MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2024

The following Management's Discussion and Analysis ("**MD&A**") dated November 5, 2024 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, 2024 and September 30, 2023, 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 thousands of Canadian Dollars.

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, 2023, which was filed on March 6, 2024 (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.sedarplus.ca.

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 care brand providing eyecare for eyes everywhere. We offer our KITS community access to a vast selection of the highest-quality contact lenses and glasses, 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, vast selection, great prices, and delivers made-to-order personalized products with incredible care and accuracy. We strive to delight our 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

KITS achieves another record-breaking quarter and Continued Growth in Q3 2024: 34% year-over-year revenue growth with over 43% year-over-year growth of glasses revenue, and Eighth Consecutive Quarter of Positive Adjusted EBITDA

We achieved multiple consecutive record-breaking revenue weeks, driving a record-setting quarter with $41.9 million in revenue. This represents a 34.4% year-over-year increase and translates to an annualized revenue run rate exceeding $167.5 million. This success has been consistent throughout the year, with revenue for the nine months ended September 30, 2024, reaching a record $114.5 million, a 28.9% increase compared to the same period in 2023. Our profitability also improved, with a record gross profit of $13.8 million in the quarter and a gross margin of 32.9%. We maintained operational leverage with improvements in marketing, fulfillment, and general and administrative expenses as a percentage of revenue. Marketing expenses as a percentage of revenue declined to 13.4% from 13.7%, fulfillment expenses declined to 10.8% from 12.6%, and G&A expenses improved to 6.2% from 6.5%.

This strong financial performance underscores the momentum of the KITS brand, driven by our differentiated model and loyal customer base and ability to attract new customers. Our loyal recurring customer base continues to be a significant driver of our success, contributing 62.1% of third-quarter revenue. Our 2-year Active Customer base grew by 7.2% to over 890,000 by September 30, 2024. We fulfilled a record 220,000 customer orders in the quarter, with the average order value increasing by 21.8% to $190. While maintaining marketing spend at 13.4% of revenue, we achieved a record revenue milestone of $15.9 million from 77,600 high- value, loyal new customers in the three months ended September 30, 2024, representing a 41% increase year-over year.

The KITS brand is increasingly recognized within the eyecare community, fueled by our new product launches such as KITS Daily and KITS Daily Colour contact lenses, now representing 3% of our total Canadian contact lens orders which demonstrates promising early adoption. Glasses revenue grew by 43.2% to $5.7 million in the third quarter, with KITS-branded frames making up 90.8% of the 66,000 glasses delivered. Repeat customers accounted for 39,000 glasses, reflecting 5.4% year-over-year growth, while revenue from new glasses customers grew by 40.1%. Notably, the revenue from upgrades to premium lenses increased by 43.5% year-over-year, contributing to higher average order value and demonstrating customer recognition of superior quality and performance in our premium lenses.

For the three and nine months ended September 30, 2024, we generated positive free cash flow of $2.2 million and $9.2 million, respectively, and maintained a healthy cash balance of $19.1 million. We achieved our eighth consecutive quarter of positive Adjusted EBITDA, totaling $1.6 million, reinforcing our commitment to profitable growth and operational efficiency.

Looking at our strategic initiatives, the sellout of our Pangolin smart glasses demonstrates our commitment to innovation and positions us at the forefront of the evolving eyewear industry. The strong momentum, with 51.4% of smart glasses orders opting for prescription lens upgrades, further validates our strategy in this emerging category and highlights the growing consumer interest in integrating technology with vision correction.

We are excited to announce record-breaking sales of $3.6 million for the week ending October 12, 2024. This milestone, achieved during KITS' Customer Appreciation Month, marks a strong start to the fourth quarter. Looking ahead, we believe we are well-positioned to sustain our growth trajectory and deliver continued value to our stakeholders. Our strategic priorities include expanding our loyal customer base, growing the KITS brand, investing in product innovation, and strengthening partnerships to enhance customer experience and access. We anticipate that executing on these priorities and capitalizing on the significant opportunities ahead will continue to drive sustainable and profitable growth.

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, 2024 and September 30, 2023.

	Three Months Ended		**Nine Months Ended**	
Financial and Operating Data	**September 30, 2024** (unaudited)	**September 30, 2023** *(unaudited)*	**September 30, 2024** (unaudited)	**September 30, 2023** *(unaudited)*
Revenue	$ 41,871	$ 31,150	$ 114,505	$ 88,847
Net income (loss)	$ 132	$ 480	$ 383	$ (1,724)
Net income (loss) per share				
Basic	$ 0.00	$ 0.02	$ 0.01	$ (0.05)
Diluted	$ 0.00	$ 0.01	$ 0.01	$ (0.05)
Non-IFRS Measures (a):				
Constant currency revenue	$ 41,414	$ 31,150	$ 113,681	$ 88,847
EBITDA	$ 946	$ 1,444	$ 3,234	$ 928
Adjusted EBITDA	$ 1,599	$ 605	$ 3,524	$ 1,422
Adjusted EBITDA Margin %	3.8%	1.9%	3.1%	1.6%

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, 2024 (unaudited)	**September 30, 2023** (unaudited)	**September 30, 2024** (unaudited)	**September 30, 2023** (unaudited)
Reconciliation of constant currency revenue				
Revenue	$ 41,871	$ 31,150	$ 114,505	$ 88,847
Foreign exchange impact	(457)	-	(824)	-
Constant Currency Revenue	$ 41,414	$ 31,150	$ 113,681	$ 88,847
Change in constant currency	$ 10,264		$ 24,834	
Change in constant currency %	33.0%		28.0%	

"**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 EBIDTA 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, 2024 (unaudited)	**September 30, 2023** (unaudited)	**September 30, 2024** (unaudited)	**September 30, 2023** (unaudited)
Reconciliation of Adjusted EBITDA				
Net income (loss) for the period	$ 132	$ 480	$ 383	$ (1,724)
Add back:				
Income taxes	124	72	349	(468)
Finance costs – net	84	118	551	725
Depreciation and amortization	606	774	1,951	2,395
EBITDA	$ 946	$ 1,444	$ 3,234	$ 928
Add back				
Share-based compensation (a)	$ 122	$ (118)	$ 931	$ 394
Exchange loss / (gain)	528	(725)	(651)	89
One-time costs (b)	3	4	10	11
Adjusted EBITDA	$ 1,599	$ 605	$ 3,524	$ 1,422
Revenue	$ 41,871	$ 31,150	$ 114,505	$ 88,847
Adjusted EBITDA Margin % (c)	3.8%	1.9%	3.1%	1.6%

Notes:
(a) Represents non-cash share-based compensation expense associated with restricted share rights (“RSRs”) and options recognized in the period.
(b) One-time IPO, directors’ and officers’ insurance costs which are expensed over the insurance coverage period.
(c) 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 the 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.

Repeat Customer Behaviour

As of September 30, 2024, we had over 890,000 2-year Active Customers, up from 830,000 as at September 30, 2023. We continue to successfully attract a record number of new customers and serve past customers. Repeat revenue in the three months ended September 30, 2024 was a record of over $26.0 million, an increase of $6.1 million from the same period in 2023. We served a total of 77,600 new customers in the third quarter of 2024.

A significant component of our repeat business is driven by our Autoship subscription program. We believe that our recurring revenues anchored in our subscription program gives KITS a unique and substantial competitive advantage over other eyecare providers. Our Autoship subscription delivery program delivered $5.8 million in revenue for the three months ended September 30, 2024 and represents an increase of 22.5% year over year. Autoship 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 is a differentiated competitive advantage over traditional optical providers and ecommerce providers alike. With a now $23.2 million dollar annuity and minimal costs associated with maintaining these customers, we 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 continues to experience a significant shift away from traditional, fragmented retailers towards providers offering enhanced value, variety, and cost savings. This evolving landscape presents an attractive opportunity for KITS to offer swift, direct-to-consumer experiences and deliver top-tier products at exceptional prices. By managing both the design and manufacturing of our glasses in-house within our vertically integrated onshore lab, we are able to provide rapid, cost-effective solutions, supported by a diverse selection and exceptional customer service. Our direct-to-consumer model, combined with our vertically integrated manufacturing operations, enables KITS to efficiently control both acquisition and production costs. This allows us to pass on significant savings and convenience, as well as an unparalleled selection, directly to our customers. With our modern, automated manufacturing facilities and lack of legacy infrastructure, we are confident that we offer the most efficient and comprehensive solution in the market.

Revenue from eyeglasses delivered increased by 43.2% to $5.7 million for the three months ended September 30, 2024, from $4.0 million for the three months ended September 30, 2023, driven by higher unit volume and average order value.

We continued to attract new and repeat glasses customers with our expansive inventory and selection. In the third quarter of 2024, 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 37,000 to over 39,000 glasses in the third quarter of 2024, an increase of 5.4%. We ended the quarter with over 562,042 frames in stock and over 2,581 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 products, service and post purchase experience 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 products and service to customers and actively invest in delivering exceptional experiences across all customer touch points, to ensure customers 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 becoming our most efficient marketing channel and validated by our incredible retention rates. 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 our TV advertising, performance search, third party customer referrals, social media influencers, online advertising, and other initiatives. Our marketing costs are largely variable and can be adjusted to align with growth objectives. In general our marketing expenditures have been getting more efficient over time as word of mouth continues to grow. 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, 2024 and September 30, 2023 has been derived from our condensed interim consolidated financial statements and related notes.

	Three Months Ended		Nine Months Ended	
Financial and Operating Data	**September 30, 2024** (unaudited)	**September 30, 2023** (unaudited)	**September 30, 2024** (unaudited)	**September 30, 2023** (unaudited)
CAD $000s, unless otherwise noted				
Revenue	$ 41,871	$ 31,150	$ 114,505	$ 88,847
Cost of sales	28,080	20,473	77,130	59,134
Gross profit	13,791	10,677	37,375	29,713
Fulfillment	4,521	3,931	12,903	11,190
Marketing	5,609	4,255	15,190	12,356
General and administrative	2,591	2,033	7,715	5,937
Exchange (gain)/loss	528	(725)	(651)	89
Depreciation and amortization	202	513	935	1,608
Operating income (loss)	340	670	1,283	(1,467)
Finance costs, net	84	118	551	725
Income (loss) before income taxes	$ 256	$ 552	$ 732	$ (2,192)
Income tax expense (recovery)	124	72	349	(468)
Net Income (loss)	$ 132	$ 480	$ 383	$ (1,724)
Non-IFRS measures (a)				
Constant currency revenue	$ 41,414	$ 31,150	$ 113,681	$ 88,847
EBITDA	$ 946	$ 1,444	$ 3,234	$ 928
Adjusted EBITDA	$ 1,599	$ 605	$ 3,524	$ 1,422
Adjusted EBITDA Margin %	3.8%	1.9%	3.1%	1.6%

Notes:

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

Three and Nine Months Ended September 30, 2024, Compared to Three and Nine Months Ended September 30, 2023

The following section provides an overview of our financial performance during the three and nine months ended September 30, 2024 to the three and nine months ended September 30, 2023. 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 $41,871 and $114,505 in the three and nine months ended September 30, 2024, an increase of $10,721 and $25,658, compared to $31,150 and $88,847 in the three months and nine months ended September 30, 2023. On a Constant Currency Revenue basis, revenue was $41,414 and $113,681 in the three and nine months ended September 30, 2024 an increase of 33.0% and 28.0%, compared to the three and nine months ended September 30, 2023.

Revenue from our eyeglasses delivered increased 43.2% to $5,682 and 40.4% to $15,254 for the three and nine months ended September 30, 2024, an increase of $1,715 and $4,392 from $3,967 and $10,862 for the three and nine months ended September 30, 2023. The increase in revenue from eyeglasses is attributable to the growing base of repeat customers, and consistent growth of new customers. 39,000 eyeglasses were delivered to returning customers in the three months ended September 30, 2024 compared to 37,000 eyeglasses in the three months ended September 30, 2023 and 123,000 eyeglasses in the nine months ended September 30, 2024 compared to 113,000 eyeglasses in the nine months ended September 30, 2023. In addition to an increased number of repeat purchases, 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 on orders subsequent to their first, contributing to the growth in average order value.

Gross Profit

Gross profit increased by $3,114 and $7,662 to a record $13,791 and $37,375 in the three and nine months ended September 30, 2024, compared to $10,677 and $29,713 in the three and nine months ended September 30, 2023. Gross margins were 32.9% and 32.6% for the three and nine months ended September 30, 2024, compared to 34.3% and 33.4% in the three and nine months ended September 30, 2023. In Q3 2024, we focused on accelerating revenue growth by introducing promotions to attract new customers likely to make frequent, high value repeat purchases. We anticipate stabilization and eventual improvement in gross margins throughout 2024 as these new customers make repeat purchases with higher average order value. From time to time, we may offer strategic promotions which could affect gross margins.

Fulfillment

Fulfillment expenses as a percentage of revenue improved to 10.8% and 11.3% in the three and nine months ended September 30, 2024 respectively, compared to 12.6% of revenue in both the three months and nine months ended September 30, 2023. Fulfillment expenses totaled $4,521 and $12,903 in the three and nine months ended September 30, 2024, compared to $3,931 and $11,190 in the three and nine months ended September 30, 2023. 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 as a percentage of revenue were 13.4% and 13.3% in the three and nine months ended September 30, 2024 compared to 13.7% and 13.9% in the three and nine months ended September 30, 2023. Marketing expenses totaled $5,609 and $15,190 in the three and nine months ended September 30, 2024 compared to $4,255 and $12,356 in the three and nine months ended September 30, 2023. The improved marketing efficiency as a percentage of revenue demonstrates the strength, growing awareness and value the KITS brand. Active customers increased by 7.2% to 890,000 in the third quarter of 2024. Average order value for the three months ended September 30, 2024 increased to $190, a 21.8% increase as compared to $156 for the three months ended

September 30, 2023, and repeat customer contributed to 62.1% of revenue (2023: 64%). 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 6.2% and 6.7% in the three and nine months ended September 30, 2024, compared to 6.5% and 6.7% in the three and nine months ended September 30, 2023. General and administrative expenses increased by $558 and $1,778 to $2,591 and $7,715 in the three and nine months ended September 30, 2024, compared to $2,033 and $5,937 in the three and nine months ended September 30, 2023. 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 loss was $528 and exchange gain was $651 in the three and nine months ended September 30, 2024, compared to an exchange gain of $725 and exchange loss of $89 in the three and nine months ended September 30, 2023. The changes in exchange differences were due to the strengthening of the US dollar against the Canadian dollar in the three and nine months ended September 30, 2024 as compared to a weakening of the US dollar against the Canadian dollar in the same period of the prior year.

EBITDA and Adjusted EBITDA

EBITDA was $946 and $3,234 in the three and nine months ended September 30, 2024, compared to $1,444 and $928 in the three and nine months ended September 30, 2023. Adjusted EBITDA was $1,599 and $3,524 in the three and nine months ended September 30, 2024, compared to $605 and $1,422 in the three and nine months ended September 30, 2023.

EBITDA as a percentage of revenue was 2.3% and 2.8% in the three and nine months ended September 30, 2024, compared to 4.6% and 1.0% in the three and nine months ended September 30, 2023.

Adjusted EBITDA as a percentage of revenue was 3.8% and 3.1% in the three and nine months ended September 30, 2024, compared to 1.9% and 1.6% in the three and nine months ended September 30, 2023. The change in Adjusted EBITDA is primarily due to our continued focus on profitability as we find leverage in our operating expenses as our business grows.

Finance costs

Finance costs in the three and nine months ended September 30, 2024 decreased by $34 and $174 from $118 and $725 in the three and nine months ended September 30, 2023 to $84 and $551. The change is primarily due to a 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 $52 and $817 to an income tax expense of $124 and $349 in the three and nine months ended September 30, 2024, compared to an income tax expense of $72 and income tax recovery $468 in the three and nine months ended September 30, 2023, primarily as a result of generating income during the year within the operating entity.

Net Income (loss)

Net income was $132 and $383 in the three and nine months ended September 30, 2024, a change of $348 and $2,107 compared to a net income (loss) of $480 and $(1,724) in the three and nine months ended September 30, 2023.

The improvement in net income was mainly attributed to an improvement in our revenue, fulfillment and marketing efficiency and foreign exchange gain recognized in 2024. 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.

Summary of Quarterly Results

CAD $000s, unless otherwise noted	September 30, 2024	June 30, 2024	March 31, 2024	December 31, 2023	September 30, 2023	June 30, 2023	March 31, 2023	December 31, 2022
Revenue	$ 41,871	$ 37,852	$ 34,782	$ 31,663	$ 31,150	$ 30,030	$ 27,667	$ 26,239
Net income (loss)	$ 132	$ 187	$ 64	$ (491)	$ 480	$ (1,184)	$ (1,020)	$ (1,385)
Weighted average number of shares								
Basic	31,565,907	31,461,257	31,450,102	31,437,460	31,398,691	31,382,798	31,366,932	31,311,166
Diluted	33,884,309	33,640,629	33,551,070	31,437,460	33,234,812	31,382,798	31,366,932	31,311,166
Net income (loss) per share								
Basic	$ 0.00	$ 0.01	$ 0.00	$ (0.02)	$ 0.02	$ (0.04)	$ (0.03)	$ (0.04)
Diluted	$ 0.00	$ 0.01	$ 0.00	$ (0.02)	$ 0.01	$ (0.04)	$ (0.03)	$ (0.04)
Average US$/Canadian dollar exchange rate (a)	$ 1.3640	$ 1.3683	$ 1.3482	$ 1.3607	$ 1.3413	$ 1.3434	$ 1.3528	$ 1.3580

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 sales growth, operations, debt financing, and equity issuances. Our approach to managing liquidity is to ensure, to the extent possible, that we optimize the 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, 2024 was $6,507 compared to $9,456 as at December 31, 2023. 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, 2024, the carrying amount of the BDC Loan is $5,364 (2023: $7,685). 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, 2024, the interest rate was 12.0% (2023: 12.75%). The BDC Loan is secured by a first-ranking security interest in all present and after acquired personal property and all present and future intellectual property of the Company. The Company is subject to various covenants under the BDC Loan, including requirements to maintain certain financial ratios. As at September 30, 2024, 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, 2024, the carrying amount of the Promissory Note is $2,156 (2023: $2,035) 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, 2024 and September 30, 2023:

	Three Months Ended		Nine Months Ended	
	September 30, 2024 (unaudited)	September 30, 2023 (unaudited)	September 30, 2024 (unaudited)	September 30, 2023 (unaudited)
Net cash provided by (used in) operating activities....	$ 2,240	1,253	$ 9,242	4,743
Net cash provided by (used in) financing activities	(1,181)	(1,261)	(3,663)	(3,865)
Net cash provided by (used in) investing activities.....	(1,521)	(110)	(2,059)	(399)
Increase (decrease) in cash	(462)	(118)	3,520	479
Cash and cash equivalents, end of period	$ 19,148	19,299	19,148	19,299

Analysis of Cash Flows for the three and nine months ended September 30, 2024, compared to the three and nine months ended September 30, 2023

Cash Provided by Operating Activities

Cash flow provided by operating activities was $2,240 and $9,242 in the three and nine months ended September 30, 2024, compared to cash provided by operating activities of $1,253 and $4,743 in the three and nine months ended September 30, 2023, changes of $987 and $4,499. These changes in cash generated in operating activities for the three and nine months ended September 30, 2024 are a result of our continued efforts to improve the profitability of our operations and improve 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 $1,181 and $3,663 in the three and nine months ended September 30, 2024, compared to $1,261 and $3,865 of cash flow used in financing activities in the three and nine months ended September 30, 2023. The decrease in cash flows used in financing activities of $80 and $202 in the three and nine months ended September 30, 2024 is due to a lower interest expense on the BDC Loan because of lower principal outstanding.

Cash Used in Investing Activities

Cash flow used in investing activities increased by $1,411 and $1,660 to $1,521 and $2,059 in the three and nine months ended September 30, 2024, compared to $110 and $399 of cash flow used in investing activities in the three and nine months ended September 30, 2023. The increase in cash flow used in investing activities in the three and nine months ended September 30, 2024, is primarily due to an increase in payments made for purchases of equipment 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 2024:

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.......	$ 22,543	$ 22,543	$ -	$ -	$ -
Loan Principal amount	5,370	3,000	2,370	-	-
Loan Interest	455	392	63	-	-
Promissory note	2,412	-	2,412	-	-
Lease liability	7,218	1,188	1,966	1,410	2,654
Total Contractual obligations	$ 37,998	$ 27,123	$ 6,811	$ 1,410	$ 2,654

As of September 30, 2024, 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, 2024.

BDC Loan

As at September 30, 2024, the carrying amount of the BDC Loan is $5,364 (2023: $7,685), and the principal amount owing is $4,650 (2023: $6,900). For the three and nine months ended September 30, 2024, the Company made repayments of $909 and $2,809 (2023: $1,011 and $3,076) and recognized $141 and $489 (2023: $236 and $738) of interest expense in finance costs. Interest expense is calculated by applying the effective interest rate of 12.0% (2023: 12.75%).

Promissory Note

As at September 30, 2024, the carrying value of the Promissory Note is $2,156 (2023: $2,035). During the three and nine months ended September 30, 2024, no quarterly principal was paid to the Promissory Note holders and the Company recorded accretion expense of $41 and $121 (2023: $39 and $112) in finance costs. Accretion expense is calculated by applying the 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.sedarplus.ca.

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.sedarplus.ca.

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 approximate unfavorable impact of $670 on the nine months ended September 30, 2024 consolidated income.

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 $4,650 as at September 30, 2024 which currently bears interest at 12.0%. A 1.00% increase in the floating interest rate would have increased interest paid by $18 and finance costs by $15 for nine months ended September 30, 2024.

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. 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, 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, 2024, the Company recorded $31 and $93 (2023: 31 and $93) of non-executive director fees (the "Directors") and $56 and $169 (2023: $56 and $169) of share-based compensation. As at September 30, 2024, $62 of non-executive director fees were included in accounts payable and accrued liabilities. 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 of Directors, the Chief Executive Officer, and the executives who report directly to the Chief Executive Officer. Key management compensation comprises of wages and employee benefits. For the three and nine months ended September 30, 2024, the Company paid $479 and $1,385 (2023: $460 and $1,426) of wages and employee benefits to key management and recorded $19 and $640 (2023: $(246) and $29) of key management share-based expense / (recovery).

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 5, 2024, an aggregate of 31,576,529 Common Shares were issued and outstanding. There were no preferred shares issued and outstanding as of such date.

As at November 5, 2024, there were 2,654,140 options and 5,706 restricted share rights outstanding under the Company's equity incentive plans, of which 2,490,112 options and 5,706 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.sedarplus.ca. Our Common shares are listed for trading on the TSX under the symbol "KITS".