MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED MARCH 31, 2021

The following Management's Discussion and Analysis ("**MD&A**") dated May 12, 2021 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 months ended March 31, 2021 and March 31, 2020, 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 filed on March 30, 2021 for Fiscal 2020 (the "AIF"). A copy of the AIF and the Company's other publicly filed documents can be accessed under the Company's profile on the System for Electronic Document Analysis and Retrieval ("SEDAR") at www.sedar.com.

We caution that the list of risk factors and uncertainties described in the MD&A and the AIF is not exhaustive and other factors could also adversely affect its results. Readers are urged to consider the risks, uncertainties and assumptions carefully in evaluating the forward-looking information and are cautioned not to place undue reliance on such information. The forward-looking information contained in this MD&A represents our expectations as of the date of this MD&A (or as of the date they are otherwise stated to be made) and are subject to change after such date. However, we disclaim any intention or obligation or undertaking to update or revise any forward-looking information whether as a result of new information, future events or otherwise, except as required under applicable securities laws. If we do update certain forward-looking information, no inference should be made that we will further update such or other forward-looking information.

Overview

KITS is a rapidly growing, vertically integrated, digitally native eyecare platform providing eyewear for eyes everywhere. We offer customers access to a vast selection of contact lenses and eyeglasses, including our own exclusive KITS designed products, as well as an advanced suite of online vision tools. Our efficient digital platform, backed by our industry-leading design, distribution and manufacturing, removes intermediaries and enables us to offer fast service, great prices and deliver made to order personalized products with incredible care and accuracy. We inspire customers to join our movement by constantly pursuing cutting-edge technologies to enable the best customer experience, including online eyewear fitting tools, virtual try-on for glasses, and an integrated online vision test. We strive to delight our customers with our competitive prices, a convenient digital shopping experience, fast and reliable delivery options – including our convenient "Autoship" subscription program for contact lenses – and an unrelenting focus on earning our customers' lifelong trust.

Recent Key Events

Revenue grew 42% Year-over-Year

In the first quarter of 2021, revenue was $20,432 and grew 41.8% organically, up from $14,412 in the first quarter of 2020 as the Company continued to invest in growing its subscription business as well as acquiring first time glasses customers.

Commences Trading on OTCQX Market

On January 19, 2021 the Company's common shares ("Common Shares") began trading on the Toronto Stock Exchange ("TSX") under the symbol "KITS" and subsequently on May 7, 2021, our Common Shares began trading on the OTCQX market in the United States under the ticker symbol "KTYCF".

Karün Eyewear of Patagonia to be sold exclusively in Canada through KITS Eyecare

On March 31, 2021, we secured an exclusive collaboration with Karün Eyewear, a certified B Corporation based in Patagonia, Chile to sell its high-quality glasses made from recycled metals and fishing nets from Patagonia, together with other discarded nylons and polycarbonates. This collaboration marks another step in KITS' plan to develop an ambitious community and sustainability strategy which includes zero footprint frames.

73% annual growth in total patient orders in the first quarter of 2021.

In the first quarter of 2021, total patient orders delivered increased to 157,000 from 91,000 in Q1 2020. We delivered a record 41,000 eyeglass patient orders in the first quarter of 2021, doubling quarter-on-quarter, compared to 20,000 in the fourth quarter of 2020.

Financial highlights

We measure our business using both financial and operating data and use the following metrics and measures to assess the near term and long-term performance of our overall business, including identifying trends, formulating financial projections, making strategic decisions, assessing operational efficiencies, and monitoring our business in this MD&A and see also the section entitled "Components of Our Results of Operations and Trends

Affecting Our Business" and "Non-IFRS Measures and Industry Metrics". The following table summarizes our financial highlights for the three months ended March 31, 2021 and 2020.

Financial and Operating Data	**Three Months Ended March 31, 2021** *(unaudited)*	**Three Months Ended March 31, 2020** *(unaudited)*
Revenue	$20,432	$14,412
Net income (loss)	$(3,568)	$(456)
Net income (loss) per share		
Basic	$(0.13)	$(0.05)
Diluted	$(0.13)	$(0.05)
Non-IFRS Measures (a):		
EBITDA	$(4,910)	$1,185
Adjusted EBITDA	$(2,563)	$1,415
Adjusted EBITDA Margin %	(12.5)%	9.8%

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.

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

"**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 EBITDA, 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.

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 tables below provide a reconciliation of Adjusted EBITDA and Adjusted EBITDA Margin for the periods presented:

Reconciliation of Adjusted EBITDA		**Three Months Ended March 31, 2021** *(unaudited)*		**Three Months Ended March 31, 2020** *(unaudited)*
Net income / (loss) for the period	$	(3,568)	$	(456)
Add back				
Income taxes		(2,586)		241
Finance costs -net		736		905
Depreciation and amortization		508		495
EBITDA	$	(4,910)	$	1,185
Add back:				
Share-based compensation (a)		339		130
Brand expenses (b)		1,304		-
One-time costs (c)		704		100
Adjusted EBITDA	$	(2,563)	$	1,415
Revenue	$	20,436	$	14,412
Adjusted EBITDA Margin % (c)		(12.5) %		9.8 %

Notes:

(a) Represents non-cash share-based compensation expense associated with restricted share rights ("RSRs") and options recognized in the period.

(b) Represent expenses associated with brand and content creation for KITS including film and other brand assets. The Company plans to use these brand assets over time and therefore will be able to derive future economic benefits from these expenses incurred.

(c) In connection with the acquisition of Kits.com and the IPO, the Company incurred expenses related to professional fees, consulting, legal, and accounting that would otherwise not have been incurred and were directly related to these two matters. These fees are not indicative of the Company's ongoing costs and we expect they will discontinue following the completion of the IPO.

(d) Represents Adjusted EBITDA divided by revenue from the same period.

Industry Metrics

"**Active Customers**" As of the last date of each reporting period, we determine our number of active customers by counting the total number of individual customers who have ordered, and for whom an order has shipped, at least once during the preceding four-year period. The change in active customers in a reporting period captures both the inflow of new customers as well as the outflow of customers who have not made a purchase in the last four years. We view the number of active customers as a key indicator of our growth—acquisition and retention of customers— and, as such, an indicator of the results of our marketing efforts and the value we provide to our customers.

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

Summary of Factors Affecting Performance

We believe that our performance and future success depend on a number of factors that present significant opportunities. These factors are also subject to a number of inherent risks and challenges, some of which are discussed below and in the "Risk Factors" section of the AIF.

Impact of COVID-19

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

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

Growth in Revenue and Active Customers

As of March 31, 2021, we had over 750,000 Active Customers, up from over 700,000 as of December 31, 2020. We succeeded in both attracting a record number of new customers and reactivating past customers. Repeat orders in the three months ended March 31, 2021 from existing customers accounted for approximately 62% (2020: 65%) revenue. The increased proportion of new customers in the first three months of Fiscal Year 2021 was due to our continued marketing efforts and success in attracting new customers during the first three months of the year, many of whom were driven to our site from our targeted advertising campaign through TV ads and social media.

Growth of Our Autoship Subscription Program

Our Autoship subscription delivery program offers the "set it and forget it" convenience to customers, as well as the access to free upgraded shipping and perks, an unlimited number of online vision tests and other complimentary vision tools we offer as part of the program.

As of March 31, 2021, we had 35,000 Autoship Subscribers, up from 26,000 as of December 31, 2020. Autoship subscribers represented 24% of total orders in the first quarter of 2021 up from 20% of total orders in the fourth quarter of 2020. The increase in the percentage of total orders reflects our goal to grow our opt-in rate to 25% by the summer of 2021 which we believe will drive higher retention and increase the lifetime value of our customers over time. For full year 2021, we believe we exit the year with approximately 30% of orders being a part of our Autoship program.

Growth of Our Glasses Business

The glasses industry is approximately five times the size of the contact lenses market, and we will continue to introduce our over 750,000 vision corrected Active Customers to our rapidly growing eyeglasses selection. Glasses as a category has yet to be disrupted and is dominated by a few large players. Accordingly, the glasses category presents an attractive opportunity with robust margins for any company that can secure loyal customers with lifelong vision correction needs. Our belief is that being vertically integrated in this category by controlling both the cost of acquisition and the cost of production will create a long-term sustainable advantage for our Company.

We delivered 41,000 pairs of eyeglasses to customers in the first three months of 2021 as compared to 39,000 eyeglasses for in all of fiscal year 2020. We also achieved a key milestone of shipping over 1,000 eyeglasses to customers in a single day during the quarter. This single-day total was driven largely by word of mouth and social sharing and is equivalent to the estimated volume that approximately 150 traditional optical retailers would deliver over the same time period.

We maintain one of the largest inventories in optical with over 600 styles in glasses and 155,000 frames in stock as well as KITS' own brand and other designer styles including Tom Ford, Ray Ban, Oakley, Gucci and more. During the first three months of 2021, we continued our focus to expand our selection of glasses to our customers and we are pleased to have entered into an exclusive partnership with Karün Eyewear, a certified B Corporation based in Patagonia, Chile to sell its high-quality glasses made from recycled metals and fishing nets from Patagonia, together with other discarded nylons and polycarbonates. With our expansive inventory offering, we believe we will be able to continue to attract new customers and increase our average order value over time.

Components of Our Results of Operations and Trends Affecting Our Business

Revenue

We derive revenue primarily from sales of both third-party brand and KITS brand contact lenses and glasses, and related shipping and handling fees. Revenue is recorded when products are delivered, net of promotional discounts and refund allowances. Revenue is primarily driven by growth of new customers and active customers and the frequency with which customers repurchase and subscribe to our Autoship subscription program.

Cost of Sales

Cost of goods sold consists of the cost of third-party brand and KITS brand products sold to customers, inventory freight, inventory shrinkage costs, and inventory valuation adjustments, offset by reductions for promotions and percentage or volume rebates offered by our suppliers, which may depend on reaching minimum purchase thresholds.

Fulfillment

Fulfillment costs primarily consist of those costs incurred in operating and staffing our fulfillment, optical lab, and customer service centers, third party fulfillment costs, and payment processing costs. Fulfillment costs as a percentage of revenue may vary due to several factors, such as payment processing and related transaction costs, our level of productivity and accuracy, changes in volume, size, and weight of units received and fulfilled, the timing of fulfillment network and optical lab expansion, the extent to which we utilize fulfillment services provided by third parties, mix of products and services sold, and our ability to increase efficiency per shipment by implementing improvements in our operations and enhancements to our customer self-service features.

We continually seek to expand our fulfillment network to accommodate a greater selection and higher in-stock inventory levels and to meet anticipated order volumes from our customers. We regularly evaluate our facility and lab requirements.

Marketing

Marketing costs include brand development, advertising and payroll and related expenses for personnel engaged in marketing and selling activities. We also rely heavily on social sharing of our products and services. We believe that the company with the highest net promoter score, or NPS, in any category ultimately derives the highest value in the category. Accordingly, we work hard to ensure we deliver exceptional service to customers and actively invest in their long term and lifetime value. We believe this allows our customers to become advocates for our brand and community, and share the KITS experience with friends and family. We have evidence that our strategy is working, as the majority of our customers arrive to our store directly, meaning they arrived without the benefit of any performance marketing source. Since launching our glasses business, we have continued to see this number increase steadily. Our goal is to maintain the highest satisfaction metrics in the category. From a paid media standpoint, we direct customers to our platforms through a number of marketing channels, such as our TV advertising, performance search, third party customer referrals, social micro and macro influencers, online advertising, and other initiatives. Our marketing costs are largely variable and can be adjusted to align with growth objectives. To the extent there is increased or decreased competition for these traffic sources, or to the extent our mix of these channels shifts, we would expect to see a corresponding change in our marketing costs. As the majority of our business is repeat or subscription based, and the majority of our store traffic and customers come to us via word of mouth, we expect to become less reliant on external forms of marketing over time. We specifically design differentiated and relevant marketing programs to accelerate word of mouth adoption and leave us less dependent on large providers such as Google and Facebook.

Selected Quarterly Consolidated Financial Information

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

CAD $000s, unless otherwise noted	**Three Months Ended March 31, 2021** *(unaudited)*	**Three Months Ended March 31, 2020** *(unaudited)*
Revenue	$ 20,432	$ 14,412
Cost of Sales	15,528	10,109
Gross profit	4,904	4,303
Fulfillment	2,799	1,233
Marketing	4,439	1,170
General and administrative	2,555	701
Depreciation and amortization	508	495
Operating income	(5,397)	704
Finance costs, net	736	905
Other expenses	21	14
Income before income taxes	(6,154)	(215)
Income tax expense (recovery)	(2,586)	241
Net income (loss)	$ (3,568)	$ (456)
Non-IFRS Measures (a):		
EBITDA	$ (4,910)	$ 1,185
Adjusted EBITDA	$ (2,563)	$ 1,415
Adjusted EBITDA Margin %	(12.5) %	9.8 %

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

Three Months Ended March 31, 2021, Compared to Three Months Ended March 31, 2020

The following section provides an overview of our financial performance during the three months ended March 31, 2021, compared to the three months ended March 31, 2020. The selected consolidated financial information contained herein for these periods has been derived from our audited consolidated financial statements and related notes.

Revenue

Revenue increased by 41.8% to $20,432 in the three months ended March 31, 2021, compared to $14,412 in the three months ended March 31, 2020. The increase in revenue is attributable to both strong returning customer revenues and strong new customer growth. We acquired a record number of new customers in the quarter through our brand awareness campaigns including investments in TV advertising and social media.

Gross Profit

Gross profit increased by 14.0% to $4,904 in the three months ended March 31, 2021, compared to $4,303 in the three months ended March 31, 2020. The increase is primarily driven by an increase in revenue.

Gross profit margin was 24.0% of revenue in the three months ended March 31, 2021, compared to 29.9% in the three months ended March 31, 2020, as the Company focused on acquiring a record number of new customers. The change in gross profit margin is driven by introductory offers engineered to attract new customers to join our subscription Autoship program and purchase glasses. We view this investment in building our glasses business and the transition from transactional to subscription revenues to be accretive to shareholders and the Company in the long-term. We believe near-term margins will be rise to 25-30% and our goal is to generate margins above 35% as our glasses business and returning Autoship customers become a larger percent of total revenues.

Fulfillment

Fulfillment expenses increased by $1,566 to $2,799 in the three months ended March 31, 2021 compared to $1,233 in the three months ended March 31, 2020. Fulfillment expense as a percentage of revenue increased to 13.7% in the three months ended March 31, 2021 compared to 8.6% in the three months ended March 31, 2020. This is mainly due to the expansion of staff and space required for our state-of-the-art optical lab to meet the increase in our patient orders. We expect some near-term volatility in our fulfillment expenses as we expand into a larger facility to accommodate our growth and optimize our operations. Specifically, there will be some duplication of costs as we complete this migration and expansion throughout 2021. We also incurred increased costs associated with the expansion of our distribution centers, manufacturing and customer service capabilities.

Marketing

Marketing expenses increased by $3,269 to $4,439 in the three months ended March 31, 2021 compared to $1,170 in the three months ended March 31, 2020. Marketing expense as a percentage of revenue increased to 21.7% in the three months ended March 31, 2021, compared to 8.1% in the three months ended March 31, 2020. The increase in marketing costs is primarily due to increased spending on awareness and top of funnel activities, including the TV network airtime that we had secured. We continue to expand our direct social media presence, and personnel engaged in marketing and selling activities as we invest in customer acquisition and retention. We continue to believe that greater investments in brand at this critical early stage of category evolution and marketing will generate outsized future returns to companies who can deliver excellent customer experiences. Longer term, we expect marketing spend of approximately 8-10% of revenue.

General and administrative

General and administrative expenses increased by $1,854 to $2,555 in the three months ended March 31, 2021, compared to $701 in the three months ended March 31, 2020. The increase is driven by expenses related to the continued expansion of our team, technology development costs, continuing costs associated with becoming a public company, and costs associated with preparing for our recently completed initial public offering. Approximately $704 of these costs are one-time in nature. We expect that as a percentage of revenue, general administrative expenses will improve as we continue to scale.

EBITDA and Adjusted EBITDA

EBITDA was $(4,910) and Adjusted EBITDA was $(2,563) in the three months ended March 31, 2021, compared to $1,185 and $1,415, respectively, in the three months ended March 31, 2020.

Adjusted EBITDA as a percentage of revenue is (12.5)% in the three months ended March 31, 2021, compared to 9.8% in the three months ended March 31, 2020.

The change in EBITDA and Adjusted EBITDA is primarily due to expanding our platform as we continue to scale. This includes investments in hiring the best talent, expanding our customer service and optical lab capabilities, and marketing to drive customer acquisition, as well as the additional factors discussed in greater detail above.

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

Finance costs in the three months ended March 31, 2021, decreased to $736 from $905 in the three months ended March 31, 2020. Finance costs in the three months ended March 31, 2021 includes the following one-time and non-cash items that we do not expect to recur going forward: prepayment penalties paid to BDC Capital Inc. (“BDC”), a $725 loss from modifying the repayment schedule in respect of the BDC Loan (as defined herein) for the prepayment made upon our initial public offering on January 19, 2021 (“IPO”), and a gain on extinguishment of the preferred shares liability of $350. Finance costs in the three months ended March 31, 2020 related to the preferred shares is $428. As of March 31, 2021, the Company no longer has any preferred shares outstanding. Interest expense paid on the BDC Loan decreased by $160 due to lower principal outstanding.

Other expenses in the three months ended March 31, 2021, increased to $21 from $14 in the three months ended March 31, 2020, primarily driven by increase in estimated sales taxes payable.

Income Taxes

Income taxes decreased by $2,827 to an income tax recovery of $2,586 in the three months ended March 31, 2021, compared to an income tax expense of $241 in the corresponding quarter of the previous year, as a result of lower taxable earnings during the period within the operating entity.

Net loss

Net loss is $3,568 in the three months ended March 31, 2021, a change of $3,112 compared to net loss of $456 in the three months ended March 31, 2020. The increase in net loss is primarily due an increase in operating costs to support our continuing growth and costs incurred relating to our recently completed initial public offering. Refer to the factors discussed above related to additional costs incurred to expand our ability to serve our growing base of customers.

Quarterly Results and Performance Measures

The following table summarizes the results of KITS' operations for the last eight most recently completed quarters. This unaudited quarterly information, other than comparable sales growth, has been prepared in accordance with IFRS.

	Summary of Quarterly Results							
CAD $000s, unless otherwise noted	**March 31, 2021**	**December 31, 2020**	**September 30, 2020**	**June 30, 2020**	**March 31, 2020**	**December 31, 2019**	**September 30, 2019**	**June 30, 2019**
Revenue……	$ 20,432	$ 20,283	$ 20,201	$ 20,322	$ 14,412	$ 12,673	$ 12,007	$ 12,218
Net income (loss)……	$ (3,568)	$ (6,216)	$ (132)	$ 221	$ (456)	$ (79)	$ 285	$ (153)
Weighted average number of shares								
Basic……	27,090,885	9,200,000	9,200,000	9,200,000	9,200,000	9,200,000	9,200,000	7,163,934
Diluted (a) ……	27,090,885	9,200,000	9,200,000	23,000,000	9,200,000	9,200,000	23,000,000	7,163,934
Net income per share								
Basic……	$ (0.13)	$ (0.68)	$ (0.01)	$ 0.02	$ (0.05)	$ (0.01)	$ 0.03	$ (0.02)
Diluted……	$ (0.13)	$ (0.68)	$ (0.01)	$ 0.02	$ (0.05)	$ (0.01)	$ 0.02	$ (0.02)
Average US$/Canadian dollar exchange rate (b) ……	$ 1.2664	$ 1.3029	$ 1.3326	$ 1.3865	$ 1.3432	$ 1.3199	$ 1.3205	$ 1.3376

Notes:

(a) An additional 13,800,000 of converted Class B preferred shares are included in the diluted weighted average number of shares only when such shares are not anti-dilutive in nature.

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

Revenue

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

- the growth in orders and increased new customers through various marketing channels;
- the accelerated secular change to ordering eyewear products online;
- the successful growth of our Kits.com and Kits.ca sites and amalgamation of some of our other web properties;
- the rollout of our own KITS-branded glasses offering;
- the introduction and continued focus to grow our Autoship subscription program from the first quarter of 2020; and
- the continual increase in our eyeglass frames inventory;

Net Income (loss)

Net income has been affected by the following factors over the last eight quarters:

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

Financial Condition, Liquidity and Capital Resources

Overview

The objectives of our capital management strategy are to invest in growing our business while maintaining our financial and operating flexibility, provide benefits to our stakeholders and provide an adequate return on investment to our shareholders. We allocated capital based on our assessment of the expected risk and return profile of each investment. This strategy is adjusted with changes in the economic environment and risks of the underlying investments. We are currently subject to working capital and minimum cash requirements through the BDC Loan agreement.

Our primary need for liquidity is to fund working capital requirements of our business, capital expenditures, debt service and for general corporate purposes. Our primary source of liquidity is funds generated by operating activities and proceeds from our recent IPO. Our ability to fund our operations, to make planned capital expenditures, to make scheduled debt payments and to repay or refinance indebtedness depends on our future operating performance and cash flows, which are subject to prevailing economic conditions and financial, business and other factors, some of which are beyond our control.

Working Capital

The Company's objectives in managing capital are to ensure sufficient liquidity to pursue its growth strategy, to establish a strong capital base to satisfy its obligations towards its creditors, as well as to provide an adequate return to shareholders.

Our primary sources of cash flow are from operations, debt financing, and equity issuances. Our approach to managing liquidity is to ensure, to the extent possible, that we always have a net negative working capital funded by our operations and 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 March 31, 2021 was $34,230 mainly due to cash received from our recently completed IPO. Similar to other e-commerce businesses, customers pay for purchases upfront and we deliver goods from inventory or from suppliers. Overall, on purchase and expenses, we have favorable payment terms from suppliers, which usually provides us with a net source of cash from working capital. In the three months ended March 31, 2021 we proactively over invested in inventory in anticipation of future growth and to provide customers with a great experience. We believe that cash generated from our operations and our current cash balance will adequately meet our capital requirements and operational needs for the next 12 months. Additionally, our growth focused marketing budget provides a lever we can use to increase cash generated from operations. Our goal is to produce capital as we grow and remain an asset-light eyecare company.

Indebtedness

The Company entered into a secured loan agreement for $23,400 (the "BDC Loan") with BDC on March 26, 2019, with a repayment date of March 15, 2026. Effective as of January 15, 2021, the BDC Loan bears interest at BDC's floating rate minus 1%, plus a variance of 4.45% per annum and is payable on a monthly basis. As of March 31, 2021, BDC's floating rate was 4.55%. The BDC Loan is secured by a first ranking security interest in all present and after acquired personal property and all present and future intellectual property of the Company. The Company is subject to various covenants under the BDC Loan, including requirements to maintain certain financial ratios. As at March 31, 2021, the loan is in good standing and the Company is in compliance with the debt covenants.

As at March 31, 2021, the carrying amount of the BDC Loan is $16,652 (2020: $21,322). During the three months ended March 31, 2021, the Company made a prepayment of $4,500 in January 2021 towards the BDC Loan principal. The repayment schedule of the BDC Loan was revised accordingly to reflect this prepayment made and the balloon payment was reduced by the prepayment amount.

As of March 31, 2021, the Company no longer has any preferred shares outstanding. On January 18, 2021, in connection with the conversion of all the Company's preferred shares, the Company issued a promissory note of $2,412 (the "Promissory Note") which represents the accrued dividends payable to the 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 March 31, 2021, the carrying amount of the Promissory Note is $1,646 (2020: $nil). During the three months ended March 31, 2021, no quarterly principal was paid to the Promissory Note holders and the Company recorded accretion expense of $25 (2020: $nil).

Cash Flows

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

		Three Months Ended March 31, 2021 *(unaudited)*		**Three Months Ended March 31, 2020** *(unaudited)*
Net cash provided by (used in) operating activities	$	(13,018)	$	3,555
Net cash provided by (used in) financing activities		45,194		(1,236)
Net cash provided by (used in) investing activities		(85)		(79)
Increase in cash		32,091		2,240
Cash and cash equivalents, end of period	$	34,388	$	5,814

Analysis of Cash Flows for the three months ended March 31, 2021, compared to three months ended March 31, 2020

Cash Flows from Operating Activities

Cash flows used in operating activities was $13,018 in the three months ended March 31, 2021, compared to cash generated from operating activities of $3,555 in the three months ended March 31, 2020, a change of $16,573. The change in operating cash flows is mainly attributable to the higher investment activities incurred during the period, investments incurred in the continued expansion of our team and the following one-time items incurred during the period: (1) one-time increase in cash outflow for inventory purchases of $3,591 to increase our speed of service; (2) $1,388 of cash paid for brand assets expensed and (3) one-time IPO related costs of $1,151.

Cash Flows Used in Financing Activities

Cash flows provided by financing activities increased by $46,430 to $45,194 in the three months ended March 31, 2021, compared to $1,236 of cash flows used in financing activities in the three months ended March 31, 2020. The increase is due to the receipt of proceeds from our IPO offset by cash outflows of $4,635 pertaining to the one-time BDC Loan principal prepayment and prepayment penalties.

Cash Flows Used in Investing Activities

Cash flows used in investing activities increased by $6 to $85 in the three months ended March 31, 2021, compared to $79 of cash flows used in investing activities in the three months ended March 31, 2020. The increase is primarily due to an increase in capital purchases of computer equipment.

Off-Balance Sheet Arrangements and Commitments

We have no off-balance sheet arrangements. As of March 31, 2021, we had outstanding capital commitments for equipment purchase of $1,656.

Contractual Obligations

The following table summarizes certain of our significant contractual obligations and other obligations as at March 31, 2021:

	Payments Due by Period				
Contractual obligations	**Contractual cash flows**	**Less than 1 year**	**1-3 years**	**4-5 years**	**After 5 years**
Accounts payable and accrued liabilities	$ 7,821	$ 7,821	$ -	$ -	$ -
Loan Principal amount	16,636	3,000	6,000	7,636	-
Loan Interest	3,115	1,103	1,486	526	-
Promissory note	2,412	-	-	2,412	-
Lease liability	1,565	372	636	522	35
Warehouse lease (1)	4,509	397	1,229	1,294	1,589
Total Contractual obligations	$ 36,058	$ 12,693	$ 9,351	$ 12,390	$ 1,624

(1) During the three months ended March 31, 2021, we entered into a lease agreement to lease a warehouse facility. The warehouse facility lease commences on or about July 1, 2021 and includes escalating rent payments and an initial seven-year term.

As of March 31, 2021, we had additional liabilities which included pending or in-transit orders, sales returns, and deferred income tax liabilities. These long-term liabilities have not been included in the table above as the timing and amount of future payments are uncertain.

Financial Instruments

The Company's financial instruments comprise of cash and cash equivalents, account receivables, accounts payable, accrued liabilities, the BDC Loan and the Promissory Note.

The carrying value of cash and cash equivalents, account receivables, accounts payable, and accrued liabilities approximate their fair value because of the short-term nature of these financial instruments. These financial instruments, the BDC Loan and the Promissory Note are classified as financial assets and liabilities at amortized cost. The fair value of the BDC Loan and Promissory Note as at March 31, 2021, was $16,151 and $1,623, respectively. The fair value of each of the BDC Loan and Promissory Note was determined using a discounted cash flow method with Level 2 inputs that considers the present value of expected payments, discounted using a risk-adjusted discount rate.

BDC Loan

As of March 31, 2021, the carrying amount of the BDC Loan was $16,652. For the three months ended March 31, 2021, the Company recognized $308 of interest expense, prepayment penalties of $135 and a onetime, non-cash cost of $590 relating to a modification loss because of the prepayment of the BDC Loan principal.

Preferred shares and the Promissory Note

As of March 31, 2021, the Company no longer has any preferred shares outstanding. During the three months ended March 31, 2021, the holders of preferred shares provided their notice of conversion to the Company. These preferred shares were converted to Common Shares and the Company issued a Promissory Note to the holders for the accrued and unpaid dividends.

As of March 31, 2021, we recorded a Promissory Note liability of $1,646 compared to $nil in the three months ended March 31, 2020. For the three months ended March 31, 2021, we recognized $25 relating to the accretion expense on the Promissory Note and a gain of $350 on the extinguishment of Class A, B and C preferred shares.

Risk Factors

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

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

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

Quantitative and Qualitative Disclosures about Market Risk

We are exposed to a variety of financial risks in the normal course of operations including foreign exchange, interest rate, credit, and liquidity risk. Our overall risk management program and business practices seek to minimize any potential adverse effects on our consolidated financial performance. For a detailed description of risk factors associated with the Company, refer to the "Risk Factors" section of the AIF, which is available on SEDAR at www.sedar.com.

Foreign Exchange Risks

The presentation currency for our consolidated financial statements is the Canadian dollar. Because we recognize sales in the United States in U.S. dollars, if the U.S. dollar weakens against the Canadian dollar it would have a negative impact on our U.S. operating results upon translation of those results into Canadian dollars for the purposes of financial statement consolidation. We may face similar risks in other foreign jurisdictions where sales are recognized in foreign currencies.

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.

Credit Risks

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

Liquidity Risk

Liquidity risk is the risk that we cannot meet a demand for cash or fund our obligations as they come due. We manage liquidity risk by managing our balance sheet and monitoring actual and projected cash flows, considering the seasonality of our revenue, income and working capital needs.

Related Party Transactions

During the three months ended March 31, 2021, the Company paid rent of $19 to a company under common control of Arshil Abdulla and recorded rent of $30 to a company under common control of Roger Hardy, of which $10 is unpaid as at March 31, 2021. These amounts have been included in other general and administrative expense and are part of the Company's ordinary course of business. The contract terms are based on market rates for these types of services. The leases continue on a year-to-year basis until and amounts are payable monthly. During the three months ended March 31, 2021, the Company recorded $24 of Board fees to its directors (the "Directors") and $37 of Board fees remain unpaid as at March 31, 2021.

Key management compensation

Key management consists of the Directors, the Chief Executive Officer, and the executives who report directly to the Chief Executive Officer. For the three months ended March 31, 2021, the Company recorded a bonus payable of $100 (2020: $50) to key management. Key management compensation comprises of wages and short-term employee benefits. For the three months ended March 31, 2021, the Company paid $262 (2020: $181) of wages and short-term employee benefits to key management and recorded $266 (2020: $125) of key management share-based compensation.

Subsequent Events

On May 7, 2021, our Common Shares commenced trading on the OTCQX market in the United States under the ticker symbol "KTYCF".

Critical Accounting Estimates and Judgments

Our Financial Statements have been prepared in accordance with IFRS as issued by the International Account Standards Board. The preparation of our financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and are based on a set of underlying data that may include our historical experience, knowledge of current events and conditions and other factors that are believed to be reasonable under the circumstances. We continually evaluate the estimates and judgments used in the preparation of the financial statements. Actual results could differ from these estimates. Areas requiring the most significant estimates and judgments are outlined below.

Inventories

In estimating net realizable value of inventory, we use estimates related to fluctuations in inventory levels, planned production, customer behavior, obsolescence, future selling prices, and costs necessary to sell the inventory.

Leases

We exercise judgment when contracts are entered into that may give rise to a right-of-use asset that would be accounted for as a lease and determining the appropriate lease term on a lease-by-lease basis. Changes in the economic environment or changes in the retail industry may impact the assessment of the lease term and any changes in the estimate of lease terms may have a material impact on the Company's consolidated statements of financial position.

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

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

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

Share-based payments

Compensation expense for share-based compensation granted is measured at the fair value at the grant date using the Black-Scholes option pricing model. The critical assumptions used under the option valuation model at the grant date are: stock price valuation; exercise price; risk-free interest rate; expected time to exercise in years; expected dividend yield; and volatility.

Changes in accounting policies

The unaudited condensed interim consolidated financial statements for the three months ended March 31, 2021 were prepared using accounting policies consistent with those used in the audited annual consolidated financial statements for the year ended December 31, 2020.

Significant New Accounting Standards Not Yet Adopted

There are no IFRS or International Financial Reporting Interpretations Committee interpretations that are not yet effective that would be expected to have a material impact on the Company's consolidated financial statements.

Current Share Information

As at May 12, 2021, an aggregate of 31,000,003 Common Shares were issued and outstanding. There were no preferred shares issued and outstanding as of such date.

As at May 12, 2021, there were 2,478,390 options and 54,493 restricted share rights outstanding under the Company's equity incentive plans, of which 1,445,091 options and 30,965 restricted share rights were vested as of such date. Each option is exercisable for one Common Share. We expect that vested restricted share rights will be paid at settlement through the issuance of one Common Share per restricted share right.

Additional Information

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