MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED MARCH 31, 2022

The following Management's Discussion and Analysis ("**MD&A**") dated May 11, 2022 provides information concerning the financial condition and results of operations of Kits Eyecare Ltd. (together with its consolidated subsidiaries, referred to herein as "KITS", the "Company", "we", "us" or "our"). This MD&A should be read in conjunction with our unaudited condensed interim consolidated financial statements for the three months ended March 31, 2022 and March 31, 2021, including the related notes thereto. This discussion contains forward-looking information that involves risks and uncertainties. Our actual results, performance and achievements could differ materially from those implied by such forward-looking information as a result of various factors discussed below, particularly under "Forward-Looking Information" and "Risk Factors". Unless otherwise noted, all dollar amounts in this MD&A are in C$'000s.

Forward-Looking Information

This MD&A contains "forward-looking information" within the meaning of applicable securities laws in Canada. Forward-looking information may relate to our future financial outlook and anticipated events or results and may include information regarding our financial position, business strategy, growth strategies, budgets, operations, financial results, taxes, dividend policy, plans and objectives. Particularly, information regarding our expectations of future results, performance, achievements, prospects or opportunities or the markets in which we operate is forward-looking information. In some cases, forward-looking information can be identified by the use of forward-looking terminology such as "plans", "targets", "expects" or "does not expect", "is expected", "an opportunity exists", "budget", "scheduled", "estimates", "outlook", "forecasts", "projection", "prospects", "strategy", "intends", "anticipates", "does not anticipate", "believes", or variations of such words and phrases or state that certain actions, events or results "may", "could", "would", "might", "will", "will be taken", "occur" or "be achieved". In addition, any statements that refer to expectations, intentions, projections or other characterizations of future events or circumstances contain forward-looking information. Statements containing forward-looking information are not historical facts but instead represent management's expectations, estimates and projections regarding future events or circumstances.

This forward-looking information and other forward-looking information are based on our opinions, estimates and assumptions in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors that we currently believe are appropriate and reasonable in the circumstances. Despite a careful process to prepare and review the forward-looking information, there can be no assurance that the underlying opinions, estimates and assumptions will prove to be correct. Certain assumptions in respect of the expansion and enhancement of our optical laboratory for glasses and warehouse facilities; the growth of our business and launch of new technologies; our ability to drive sales growth; our ability to maintain, enhance, and grow within our addressable market; our ability to drive ongoing development and innovation of our exclusive brands and product categories; our ability to continue directly sourcing from third party suppliers and manufacturers; our ability to retain key personnel; our ability to maintain and expand distribution capabilities; our ability to continue investing in infrastructure to support our growth; our ability to obtain and maintain existing financing on acceptable terms; currency exchange and interest rates; the impact of competition; the changes and trends in our industry or the global economy; and the changes in laws, rules, regulations, and global standards are material factors made in preparing forward-looking information and management's expectations.

Forward-looking information is necessarily based on a number of opinions, estimates and assumptions that we considered appropriate and reasonable as of the date such statements are made, are subject to known and unknown risks, uncertainties, assumptions and other factors that may cause the actual results, level of activity, performance or achievements to be materially different from those expressed or implied by such forward-looking information, including but not limited to the risk factors described in greater detail in the Company's annual information form for the year ended December 31, 2021, which was filed on March 9, 2022 (the "AIF"). A copy of the AIF and the Company's other publicly filed documents can be accessed under the Company's profile on the System for Electronic Document Analysis and Retrieval ("SEDAR") at www.sedar.com.

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

Overview

KITS is a rapidly growing, vertically integrated, digitally native eyecare platform providing eyewear for eyes everywhere.

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

Recent Key Events

Year-over-year glasses revenue growth of 63% and gross margins expanded by 650 basis points

Building on a successful fourth quarter of 2021, we continued our momentum in the first quarter of 2022. We delivered 46,000 eyeglasses to our vision-corrected customers representing a 63% year-over-year increase in revenue from eyeglasses delivered. This quarter, we increased our average order value through a deliberate focus on attracting the highest value customers and retaining existing customers. We expanded our gross margins by 650 basis points to 30.5% year-over-year and 40 basis points quarter-over-quarter.

Category leading retention metrics

In the first quarter of 2022, we saw compelling evidence that our revolutionary complete vision care offering is both securing customers and inspiring them to return. We are seeing a 100% sales retention rate (based on sales order value) on our 2020 customer cohort after 24 months as customers are returning at a higher rate. The resulting strong recurring revenue tailwind allowed us to reduce marketing spend in the quarter significantly.

Continued strong retention metrics and record Autoship participation

Repeat orders from our existing community were approximately 70% of revenue, in the first quarter of 2022, up from 62% in the first quarter of 2021. We continue to see success in our retention initiatives as Autoship orders represented a record proportion (25.1%) of our contact lens orders in the first quarter of 2022.

Glasses growth continues

In the first quarter of 2022, KITS delivered over 46,000 eyeglasses orders to patients, and 148,000 total eyecare orders to patients despite supply chain headwinds. Our focus on growing our eyeglasses business continued as revenue from eyeglasses delivered in the first quarter of 2022 increased approximately 63% year over year. Notably, this growth occurred despite reducing marketing expenses by approximately 40% year-on-year this quarter.

Eyeglasses delivered to repeat customers grew 2.9x year over year from 4,900 eyeglasses to 14,000 eyeglasses validating our hypothesis that once a new customer tries our world class offering, they will be inspired to return. We have continued to attract new and repeat customers with our expansive inventory and selection. We ended the quarter with over 400,000 frames in stock and over 800 styles. Our vertically integrated, high-capacity onshore optical lab has allowed us to mitigate supply chain disruptions and to maintain a healthy gross margin, while delivering prescription glasses to customers in as little as one day. We continue to focus on expanding the revenue profile per order in glasses through delivering exceptional value and premium options and we experienced a 20% quarter-on-quarter increase in progressive eyeglasses delivered in the first quarter of 2022.

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 months ended March 31, 2022 and 2021.

	Three Months Ended	
	March 31, 2022 (unaudited)	**March 31, 2021** (unaudited)
Financial and Operating Data		
Revenue	$20,052	$20,432
Net loss	$(2,264)	$(3,568)
Net loss per share		
Basic	$(0.07)	$(0.13)
Diluted	$(0.07)	$(0.13)
Non-IFRS Measures (a):		
Constant currency revenue	$20,049	$20,432
Adjusted EBITDA	$(918)	$(2,717)
Adjusted EBITDA Margin %	(4.6%)	(13.3)%

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	
Reconciliation of constant currency revenue	**Mar 31, 2022**	**March 31, 2021**
Revenue	$ 20,052	$ 20,432
Foreign exchange impact	(3)	-
Constant Currency Revenue	$ 20,049	$ 20,432
Change in constant currency	$ (383)	
Change in constant currency %	(1.9)%	

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

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

Adjusted EBITDA, and Adjusted EBITDA Margin are financial measures that are not defined under IFRS. We use these non-IFRS financial measures, and believe they enhance an investor's understanding of our financial and operating performance from period to period, because they exclude certain material non-cash items and certain other adjustments we believe are not reflective of our ongoing operations and our performance. Accordingly, we use these metrics to measure our core financial and operating performance for business planning purposes and as a component in the determination of incentive compensation for salaried employees.

In addition, we believe, Adjusted EBITDA, and Adjusted EBITDA Margin are measures commonly used by investors to evaluate companies in the e-commerce industry. However, they are not presentations made in accordance with IFRS and the use of the terms Adjusted EBITDA, and Adjusted EBITDA Margin vary from others in our industry. These financial measures are not intended to represent and should not be considered as alternatives to net income, operating income or any other performance measures derived in accordance with IFRS as measures of operating performance or operating cash flows or as measures of liquidity.

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.

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 Adjusted EBITDA and Adjusted EBITDA Margin for the periods presented:

	Three Months Ended	
	March 31, 2022 (unaudited)	March 31, 2021 (unaudited)
Reconciliation of Adjusted EBITDA		
Net income loss for the period	$ (2,264)	$ (3,568)
Add back:		
Income taxes	(714)	(2,586)
Finance costs - net	404	736
Depreciation and amortization	851	508
Share-based compensation (a)	306	339
Brand expenses (b)	-	1,304
Exchange loss / (gain)	485	(154)
One-time costs (c)	14	704
Adjusted EBITDA	$ (918)	$ (2,717)
Revenue	$ 20,052	$ 20,432
Adjusted EBITDA Margin % (d)	(4.6)%	(13.3)%

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. Other than the one-time IPO directors and officers insurance costs which is expensed over the insurance coverage period, we expect the remaining cost to discontinue following the completion of the IPO.

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

Industry Metrics

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

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

Summary of Factors Affecting Performance

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

Impact of COVID-19

The coronavirus disease ("COVID-19") pandemic has been a highly disruptive economic and societal event that has affected our business and has had a significant impact on consumer shopping behavior. To serve our customers while also providing for the safety and well-being of our team members, we have adapted aspects of our logistics, transportation, supply chain and purchasing processes accordingly. For example, as discussed in more detail below, in the first quarter of 2022, we reduced our marketing spend significantly due to the many headwinds resulting from the omicron variant of COVID-19 as we balanced our team's health and ability to fulfill orders in a timely way with our growth ambitions. Generally speaking, 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.

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

Repeat Customer Behaviour

As of March 31, 2022, we had over 710,000 2-year Active Customers, up from 549,000 as of March 31, 2021. We have continued to successfully attract a record number of new customers and serve past customers. Repeat orders in the three months ended March 31, 2022 from existing customers accounted for approximately 70% of revenue up from 62% year over year demonstrating the recurring nature of our product offering. Our targeted advertising campaigns are gaining efficiency as we continued to attract a steady number of 58,000 new customers in the first quarter of 2022.

Growth of Our Autoship Subscription Program

Our Autoship subscription delivery program offers the "set it and forget it" convenience to our community of customers, as well as access to free upgraded shipping and complimentary vision perks we offer as part of the program. We believe that our Autoship program will continue to deliver value and convenience to our customers with minimal acquisition costs and provide higher lifetime customer value.

Autoship orders represented 25.1% of total contact lens orders in the first quarter of 2022, up from 23.9% in the first quarter of 2021.

Growth of Our Glasses Business

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

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

In the first quarter of 2022, revenue from eyeglasses delivered increased by 63.0% from $1,567 for the three months ended March 31, 2021, to $2,554 for the three months ended March 31, 2022. Eyeglasses delivered increased by 12% year over year to 46,000 eyeglasses for the first quarter of 2022.

Eyeglasses delivered to repeat customers increased year-over-year from 4,900 eyeglasses to 14,000 eyeglasses. We have continued to attract new and repeat customers with our expansive inventory and selection. We ended the quarter with over 400,000 frames in stock and over 800 styles. We continue to focus on expanding the revenue profile per order in glasses through delivering exceptional value and premium options and we experienced a 20% quarter-on-quarter increase in progressive eyeglasses delivered in the first quarter of 2022.

Components of Our Results of Operations and Trends Affecting Our Business

Revenue

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

Cost of Sales

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

Fulfillment

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

We continually seek to expand our fulfillment network to accommodate a greater selection and higher in-stock inventory levels and to meet anticipated order volumes from our customers. We regularly evaluate our facility and lab requirements. We have been consolidating our distribution and manufacturing centers and we are continuing to automate and optimize our consolidated, state of the art manufacturing and distribution center.

Marketing

Marketing costs include brand development, advertising and payroll and related expenses for personnel engaged in marketing and selling activities. We also rely heavily on social sharing of our products and services. We believe that the company with the highest net promoter score, or NPS, in any category ultimately derives the highest value in the category. Accordingly, we work hard to ensure we deliver exceptional service to customers and actively invest in their long-term and lifetime value. We believe this allows our customers to become advocates for our brand and community, and share the KITS experience with friends and family. We have evidence that our strategy is working, as the majority of our customers arrive to our store directly, meaning they arrived without the benefit of any performance marketing source as demonstrated by the 63% year-over-year growth we experienced this quarter in our eyeglasses delivered, while reducing marketing spend by 40% year-over-year. 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 believe our return on invested capital is among the highest in the category and that our lifetime value metrics demonstrate that the investments we are making in sales and marketing and fulfilment are balanced to ensure long-term sustainable growth. We specifically design differentiated and relevant marketing programs to accelerate word of mouth adoption and 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 indicated. The selected consolidated financial information set out below for the three months ended March 31, 2022 and 2021 has been derived from our condensed interim consolidated financial statements and related notes.

	Three Months Ended	
CAD $000s, unless otherwise noted	**March 31, 2022** *(unaudited)*	**March 31, 2021** *(unaudited)*
Revenue	$ 20,052	$ 20,432
Cost of sales	13,939	15,528
Gross profit	6,113	4,904
Fulfillment	2,770	2,799
Marketing	2,694	4,439
General and administrative	2,668	2,576
Depreciation and amortization	555	508
Operating income	(2,574)	(5,418)
Finance costs, net	404	736
Income before income taxes	(2,978)	(6,154)
Income tax expense (recovery)	(714)	(2,586)
Net loss	$ (2,264)	$ (3,568)
Non-IFRS measures (a)		
Constant currency revenue	$ 20,049	$ 20,432
Adjusted EBITDA	$ (918)	$ (2,717)
Adjusted EBITDA Margin %	(4.6) %	(13.3)%

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

Three Months Ended March 31, 2022, Compared to Three Months Ended March 31, 2021

The following section provides an overview of our financial performance during the three months ended March 31, 2022 to the three months ended March 31, 2021. The selected consolidated financial information contained herein for these periods has been derived from our condensed interim consolidated financial statements and related notes.

Revenue

Revenue was $20,052 in the three months ended March 31, 2022, compared to $20,432 in the three months ended March 31, 2021.

In the first quarter of 2022, we reduced our marketing spend approximately 40% to $2,694 due to the many headwinds faced as a result of the omicron variant of COVID-19. This reduction in marketing spend resulted in a reduction in new customers in the quarter as we balanced our team’s health and ability to fulfill orders in a timely way with our growth ambitions. Fewer patient orders delivered this quarter was offset by a 4.1% increase in average order value to $135 for the three months ended March 31, 2022 as compared to $130 for the three months ended March 31, 2021.

Revenue from our eyeglasses delivered increased 63% to $2,554 for the three months ended March 31, 2022 from $1,567 for the three months ended March 31, 2021.

The increase in revenue from eyeglasses was due to an increase in eyeglasses delivered from 41,000 in the three months ended March 31, 2021 to 46,000 eyeglasses in the three months ended March 31, 2022. The increase in eyeglasses delivered is attributable to strong returning customer revenues and a strong number of new first time eyeglasses customers who were inspired to try KITS. We were pleased to see such strong growth despite our significant reduction in marketing spend in the quarter.

Gross Profit

Gross margins expanded from 24% for the three months ended March 31, 2021 to 31% for the three months ended March 31, 2022. Gross profit increased by 24% to $6,113 in the three months ended March 31, 2022, compared to $4,904 in the three months ended March 31, 2021. Gross margins expanded as a result of fewer initial discounts being offered to new customers and as a result of more return customers in the quarter who typically return at higher gross margins than their initial orders. We are pleased to have delivered near-term margins rising to 25-30% and our goal continues to be to generate longer-term gross -margins of 35-40% as our glasses business and returning Autoship customers become a larger portion of total revenue.

Fulfillment

Fulfillment expenses were $2,770 in the three months ended March 31, 2022, compared to $2,799 in the three months ended March 31, 2021. Fulfillment expense as a percentage of revenue remains unchanged at 13.8% in the three months ended March 31, 2022, compared to the three months ended March 31, 2021. We completed the move to our new state-of-the art manufacturing and distribution center in the third quarter of 2021. We believe this move allows us to expand our orders by more than three times from where we are today, because we have built in significant capacity to expand while maintaining overheads. We believe strongly this de risks our business plan and are excited to have secured a facility that had more than $5 million dollars of improvements built into it that we will not need to upgrade or invest in.

Marketing

Marketing expenses decreased 40% or $1,745 to $2,694 in the three months ended March 31, 2022 compared to $4,439 in the three months ended March 31, 2021. Marketing expense as a percentage of revenue was 13.4% in the three months ended March 31, 2022, compared to 21.7% in the three months ended March 31, 2021. During the first quarter of 2021, we invested $1,304 in brand awareness and top of funnel activities which were non-recurring in the first quarter of 2022.

General and administrative

General and administrative expenses increased by $92 to $2,668 in the three months ended March 31, 2022, compared to $2,576 in the three months ended March 31, 2021. Excluding foreign exchange and one-time costs incurred in connection with our initial public offering ("IPO") completed in 2021, general and administrative expenses increased by $143 to $2,169 in the three months ended March 31, 2022, compared to $2,026 in the three months ended March 31, 2021. The change is primarily due to the continued expansion of our team and continuing costs associated with operating a public company.

Adjusted EBITDA

Adjusted EBITDA was $(918) in the three months ended March 31, 2022, compared to $(2,717) in the three months ended March 31, 2021. Adjusted EBITDA as a percentage of revenue was (4.6)% in the three months ended March 31, 2022, compared to (13.3)% in the three months ended March 31, 2021. The change in Adjusted EBITDA is primarily due to our continued focus on returning to profitability in the fiscal year 2022 as we focused on generating the best returns on every revenue order delivered to our customers, as well as the additional factors discussed in greater detail above.

Finance costs

Finance costs in the three months ended March 31, 2022 decreased by $332 from $736 in the three months ended March 31, 2021 to $404. Excluding one-time finance costs incurred in March 31, 2021 of $375, finance costs increased by $43 to $404 in the three months ended March 31, 2022, compared to $361 in the three months ended March 31, 2021. The change is primary due to an increase in interest expenses recorded on lease liabilities and an increase in the variable BDC interest rate during the period, offset by lower interest expenses on the BDC Loan because of lower principal outstanding.

Income Taxes

Income taxes changed by $1,872 to an income tax recovery of $714 in the three months ended March 31, 2022, compared to an income tax recovery of $2,586 in the three months ended March 31, 2021, primarily as a result of as a result of lower loss during the year within the operating entity.

Net loss

Net loss was $2,264 in the three months ended March 31, 2022, a change of $1,304 compared to a net loss of $3,568 in the three months ended March 31, 2021.

The decrease in net loss was primarily due to one-time IPO costs and brand expenses (marketing expenses) incurred in the first quarter of 2021 that were non-recurring in 2022. Refer to the factors discussed above related to the variance in the costs incurred in the current quarter excluding these one-time IPO costs.

Quarterly Results and Performance Measures

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

Summary of Quarterly Results

CAD $000s, unless otherwise noted	March 31, 2022	December 31, 2021	September 30, 2021	June 30, 2021	March 31, 2021	December 31, 2020	September 30, 2020	June 30, 2020
Revenue	$ 20,052	$ 20,270	$ 20,032	$ 21,669	$ 20,432	$ 20,283	$ 20,201	$ 20,322
Net income (loss)	$ (2,264)	$ (4,054)	$ (2,137)	$ (4,858)	$ (3,568)	$ (6,216)	$ (132)	$ 221
Weighted average number of shares								
Basic	31,241,716	31,156,898	31,131,320	31,070,766	27,090,885	9,200,000	9,200,000	9,200,000
Diluted (a)	31,241,716	31,156,898	31,131,320	31,070,766	27,090,885	9,200,000	9,200,000	23,000,000
Net income per share								
Basic	$ (0.07)	$ (0.13)	$ (0.07)	$ (0.16)	$ (0.13)	$ (0.68)	$ (0.01)	$ 0.02
Diluted	$ (0.07)	$ (0.13)	$ (0.07)	$ (0.16)	$ (0.13)	$ (0.68)	$ (0.01)	$ 0.02
Average US$/Canadian dollar exchange rate (b)	$ 1.2666	$ 1.2605	$ 1.2592	$ 1.2284	$ 1.2664	$ 1.3029	$ 1.3326	$ 1.3865

Notes:

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

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

Revenue

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

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

Net Income (loss)

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

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

Financial Condition, Liquidity and Capital Resources

Overview

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

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

Working Capital

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

Our primary sources of cash flow are from operations, debt financing, and equity issuances. Our approach to managing liquidity is to ensure, to the extent possible, that we optimize working capital funded by our operations and maintain sufficient liquidity to meet our liabilities as they become due. We do so by monitoring cash flow and performing budget-to-actual analysis on a regular basis.

The working capital as at March 31, 2022 was $16,445 compared to $18,889 as at December 31, 2021. Similar to other e-commerce businesses, customers pay for purchases upfront and we deliver goods from inventory or from suppliers. Overall, 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, 2022, we continued to invest in the buildup of our inventory in anticipation of future growth and to provide customers with a great experience, resulted in a net use of funds. We believe that cash generated from our operations and our current cash balance will adequately meet our capital requirements and operational needs for the next 12 months. Additionally, our growth focused marketing budget provides a lever we can use to increase cash generated from operations. Our goal is to produce capital as we grow and remain an asset-light eyecare company.

Indebtedness

The Company entered into a secured loan agreement for $23,400 (the "BDC Loan") with BDC Capital Inc. ("BDC") on March 26, 2019, with a repayment date of March 15, 2026. Effective as of January 15, 2021, the BDC Loan bear interest at BDC's floating rate minus 1%, plus a variance of 4.45% per annum and is payable on a monthly basis. As of March 31, 2022, BDC's floating rate was 4.80%. 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, 2022, the loan is in good standing and the Company is in compliance with the debt covenants.

As at March 31, 2022, the carrying amount of the BDC Loan is $13,578 (2021: $14,342). The change is due to the monthly principal repayment made during the period.

On January 18, 2021, in connection with the conversion of all the Company's preferred shares, the Company issued a promissory note of $2,412 (the "Promissory Note") which represents the accrued dividends payable to the former holders of the preferred shares. The Promissory Note bears no interest and matures on the earlier of January 31, 2026 or the date after the BDC Loan has been repaid in full (the "Maturity Date"). Unpaid principal shall be payable in quarterly installments of $121 beginning on March 31, 2021, subject to the consent of BDC. Any unpaid principal shall be payable in full upon the Maturity Date. As at March 31, 2022, the carrying amount of the Promissory Note is $1,778 (2021: $1,744) and the change is due to accretion expenses recognized. During the three months ended March 31, 2022, no quarterly principal was paid to the Promissory Note holders.

Cash Flows

The following table presents cash and cash equivalents as at March 31, 2022 and March 31, 2021:

	Three Months Ended	
	March 31, 2022 *(unaudited)*	**March 31, 2021** *(unaudited)*
Net cash provided by (used in) operating activities....	$ (1,045)	$ (13,018)
Net cash provided by (used in) financing activities.....	(1,265)	45,194
Net cash provided by (used in) investing activities.....	(34)	(85)
Increase (decrease) in cash..	(2,344)	32,091
Cash and cash equivalents, end of period	$ 18,330	$ 34,388

Analysis of Cash Flows for the three months ended March 31, 2022, compared to the three months ended March 31, 2021

Cash Flows from Operating Activities

Cash flows used in operating activities was $1,045 in the three months ended March 31, 2022, compared to cash used in operating activities of $13,018 in the three months ended March 31, 2021, changes of $11,973. The decrease in cash used in operating activities for the three months ended March 31, 2022 is due to our continued efforts to manage the profitability of our operations and improve our accounts payable turnover ratio. 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 Flows Used in Financing Activities

Cash flows used in financing activities was $1,265 in the three months ended March 31, 2022, compared to $45,194 of cash flows provided by financing activities in the three months ended March 31, 2021. The decrease in cash flows provided by financing activities in the three months ended March 31, 2021 is due to the receipt of our IPO proceeds of $51,047. Excluding the IPO proceeds, the cash flows used in financing activities decreased by $4,588 from $5,853 for the three months ended March 31, 2021 to $1,265 for the three months ended March 31, 2022. The decrease is due to a one-time BDC Loan principal prepayment and prepayment penalties during the three months ended March 31, 2021 offset by higher lease payments for equipment and leases as we completed our move to our new onshore optical lab in Q3 2021.

Cash Flows Used in Investing Activities

Cash flows used in investing activities decreased by $51 to $34 in the three months ended March 31, 2022, compared to $85 of cash flows used in investing activities in the three months ended March 31, 2021. The decrease in cash flows used in investing activities in the three months ended March 31, 2022 is primarily due to fewer capital equipment purchases made during the quarter.

Off-Balance Sheet Arrangements and Commitments

We have no off-balance sheet arrangements or commitments.

Contractual Obligations

The following table summarizes certain of our significant contractual obligations and other obligations as at March 31, 2022:

	Payments Due by Period ($ in thousands)				
Contractual obligations	**Contractual cash flows**	**Less than 1 year**	**1-3 years**	**4-5 years**	**After 5 years**
Accounts payable and accrued liabilities.......	$ 11,682	$ 11,682	$ -	$ -	$ -
Loan Principal amount	13,636	3,000	6,000	4,636	-
Loan Interest	2,075	890	1,037	148	-
Promissory note	2,412	-	-	2,412	-
Lease liability	9,579	1,054	2,182	1,881	4,462
Total Contractual obligations	$ 39,384	$ 16,626	$ 9,219	$ 9,077	$ 4,462

As of March 31, 2022, we had additional liabilities which included pending or in-transit orders and sales returns. These liabilities have not been included in the table above as the timing and amount of future payments are uncertain.

Financial Instruments

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

The carrying value of cash and cash equivalents, account receivables, accounts payable and accrued liabilities approximate their fair value because of the short-term nature of these financial instruments. These financial instruments, the BDC Loan and the Promissory Note are classified as financial assets and liabilities at amortized cost. There are no financial liabilities that are measured at fair value as at March 31, 2022.

BDC Loan

As at March 31, 2022, the carrying amount of the loan is $13,578 (2021: $14,342). For the three months ended March 31, 2022, the Company recognized $236 (2021: $308) of interest expense in finance costs. Interest expense is calculated by applying the effective interest rate of 7.16% (2021: 6.95%).

Promissory Note

As at March 31, 2022 the carrying value of the promissory note is $1,778 (2021: $1,744). During the three months ended March 31, 2022, no quarterly principal was paid to the promissory holders and the Company recorded accretion expense of $34 (2021: $25) 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.sedar.com.

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

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

Quantitative and Qualitative Disclosures about Market Risk

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

Foreign Exchange 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 $278 on the three months ended March 31, 2022 consolidated loss.

Interest Rate Risks

We are exposed to changes in interest rates on our cash and cash equivalents, loans and borrowings. Debt issued at variable rates exposes us to cash flow interest rate risk. During the period, we had a variable interest rate loan from BDC. The principal amount outstanding under the loan was $12.2 million as at March 31, 2022 which currently bears interest at 8.25%. A 1.00% increase in the floating interest rate would have increased interest paid by $31 and finance costs by $37 for three months ended March 31, 2022.

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. 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, 2022, the Company paid rent of $19 (2021: $19) to a company under common control of Arshil Abdulla (Chief Technology Officer of KITS) and recorded rent of $30 (2021: $30) to a company under common control of Roger Hardy, (Chief Executive Officer and Director of KITS), of which $11 is unpaid as at March 31, 2022. 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, and amounts are payable monthly. During the three months ended March 31, 2022, the Company recorded $20 (2021: $24) of Board fees and advisory fees to its directors (the "Directors") and $50 of share-based compensation (2021: $50). $42 of Board fees remain unpaid as at March 31, 2022. The Promissory Note holders are former holders of the preferred shares in the Company, and include certain key management of the Company and their affiliates. For further details regarding the Promissory Note, see "Financial Condition, Liquidity and Capital Resources" and "Financial Instruments" above.

Key management compensation

Key management consists of the 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 paid $400 (2021: $262) of wages and short-term employee benefits to key management and recorded $188 (2021: $266) of key management share-based compensation.

Subsequent Events

None

Critical Accounting Estimates and Judgments

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

Inventories

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

Revenue

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

Leases

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

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

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

We are required to exercise judgment in determining the grouping of assets to identify their 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 May 11, 2022, an aggregate of 31,241,716 Common Shares were issued and outstanding. There were no preferred shares issued and outstanding as of such date.

As at May 11, 2022, there were 2,879,758 options and 34,204 restricted share rights outstanding under the Company's equity incentive plans, of which 2,057,045 options and 18,520 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".