



**CONSOLIDATED ANNUAL
FINANCIAL STATEMENTS**

**For the years ended December
31, 2020 and 2019**

KITS EYECARE LTD.

Consolidated Annual Financial Statements

For the years ended December 31, 2020 and 2019

(in thousands of Canadian Dollars, except share and per share data)

To the Shareholders of Kits Eyecare Ltd.:

Opinion

We have audited the consolidated financial statements of Kits Eyecare Ltd. and its subsidiary (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2020 and December 31, 2019, and the consolidated statements of income (loss), comprehensive loss, changes in equity, and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2020 and December 31, 2019, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audits of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Impairment Analysis of Goodwill and Indefinite Life Intangible Assets

Key Audit Matter Description

We draw attention to Note 15 to the consolidated financial statements. The Company has recorded goodwill and indefinite life intangible assets of \$36,445,000 and \$1,115,000 respectively as of December 31, 2020. The Company performs impairment testing for goodwill and indefinite life intangible assets on an annual basis or more frequently when there is an indication of impairment. An impairment is recognized if the carrying amount of an asset, or its cash generating unit (CGU), exceeds its estimated recoverable amount. The recoverable amount of an asset is the greater of its value-in-use and its fair value less costs of disposal. In determining the estimated recoverable amounts using a discounted cash flow model, the Company's significant assumptions include future cash flows based on expected operating results, long-term growth rates and the discount rate.

We considered this a key audit matter due to the significant judgment made by management in estimating the recoverable amounts for goodwill and indefinite life intangible assets and a high degree of auditor judgment, subjectivity and effort in performing procedures and evaluating audit evidence relating to management's estimates. This resulted in an increased extent of audit effort, including the involvement of internal valuation specialists.

Audit Response

We responded to this matter by performing procedures over the impairment of goodwill and indefinite life intangible assets. Our audit work in relation to this included, but was not restricted to, the following:

- Tested management's key assumptions, including a 'retrospective review' to compare management's assumptions in prior year expected future cash flows to the actual results to assess the Company's budgeting process.

- Evaluated the reasonableness of key assumptions in the impairment model, including future cash flows based on expected operating results, long-term growth rates and the discount rate.
- Tested the mathematical accuracy of management's impairment model and supporting calculations.
- With the assistance of internal valuation specialists, we evaluated the reasonableness of the Company's impairment model, which included:
 - Evaluating the reasonableness of the discount rates by comparing the Company's weighted average cost of capital against publicly available market data; and
 - Developing a range of independent estimates and comparing those to the discount rate selected by management.

Other Information

Management is responsible for the other information. The other information comprises Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audits of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audits or otherwise appears to be materially misstated. We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The

risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audits and significant audit findings, including any significant deficiencies in internal control that we identify during our audits.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Ronald D. Miller.

Vancouver, British Columbia

March 12, 2021

MNP LLP

Chartered Professional Accountants

KITS EYECARE LTD.**CONSOLIDATED STATEMENTS OF INCOME (LOSS)**

For the years ended December 31, 2020 and 2019

(in thousands of Canadian Dollars, except share and per share data)

	2020	2019
Revenue (Note 8)	\$ 75,217	\$ 36,897
Cost of sales	53,829	26,085
Gross profit	21,388	10,812
Fulfillment (Note 9)	7,598	2,717
Marketing (Note 9)	7,836	3,168
General and administrative (Note 9)	3,819	1,581
Depreciation and amortization (Note 13, 14, 15)	2,013	1,327
Operating income	122	2,019
Finance costs - net (Note 17(d))	3,090	1,845
Fair value accrual for Class A and Class C preferred shares (Note 17(b))	3,773	(24)
Other expenses	347	108
(Loss) Income before income taxes	(7,088)	90
Income taxes (Note 10)	(505)	37
Net (loss) Income for the year	\$ (6,583)	\$ 53
(Loss) Earnings per share (Note 24)		
Basic	\$ (0.72)	\$ 0.01
Diluted	\$ (0.72)	\$ 0.01

The accompanying notes to the consolidated financial statements are an integral part of these consolidated financial statements.

KITS EYECARE LTD.**CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS**

For the years ended December 31, 2020 and 2019

(in thousands of Canadian Dollars, except share and per share data)

	<u>2020</u>	<u>2019</u>
Net (loss) Income for the year	\$ (6,583)	\$ 53
Other comprehensive loss for the year:		
Items that may be reclassified to profit and income		
Currency translation differences	<u>(1,006)</u>	<u>(1,302)</u>
Total comprehensive loss for the year	<u>\$ (7,589)</u>	<u>\$ (1,249)</u>

The accompanying notes to the consolidated financial statements are an integral part of these consolidated financial statements.

KITS EYECARE LTD.**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

(in thousands of Canadian Dollars, except share and per share data)

	2020	2019
Assets		
Current assets		
Cash and cash equivalents	\$ 2,308	\$ 3,398
Accounts and other receivables (Note 11)	1,109	845
Inventory (Note 12)	5,805	2,837
Prepays, deposits and other assets	1,086	125
Total current assets	10,308	7,205
Property and equipment (Note 13)	391	334
Right-of-use asset (Note 14)	1,176	773
Deferred tax asset (Note 10)	210	5
Intangible assets (Note 15)	6,127	7,887
Goodwill (Note 15)	36,445	37,178
Total assets	<u>\$ 54,657</u>	<u>\$ 53,382</u>
Liabilities and shareholders' equity		
Current liabilities		
Accounts payable and accrued liabilities (Note 16)	\$ 10,393	\$ 5,049
Tax payable (Note 10)	397	367
Deferred revenue (Note 8)	2,248	1,831
Loan (Note 17(a))	21,322	23,199
Lease liability (Note 14(b))	210	129
Total current liabilities	34,570	30,575
Class A & C preferred shares (Note 17(b))	14,049	10,276
Class B preferred shares liability & dividends payable (Note 17(c))	4,298	3,914
Deferred tax liability (Note 10)	1,513	1,866
Lease liability (Note 14(b))	800	546
Total liabilities	55,230	47,177
Shareholders' equity		
Share capital (Note 20)	7,324	7,324
Contributed surplus (Note 21)	941	130
Retained earnings (deficit)	(6,530)	53
Accumulated other comprehensive loss	(2,308)	(1,302)
Total shareholders' equity	(573)	6,205
Total liabilities and shareholders' equity	<u>\$ 54,657</u>	<u>\$ 53,382</u>

The accompanying notes to the consolidated financial statements are an integral part of these consolidated financial statements.

Approved on behalf of the Board:

Signed: "Roger V. Hardy", Director

Signed: "Sabrina Liak", Director

KITS EYECARE LTD.
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
For the years ended December 31, 2020 and 2019
(in thousands of Canadian Dollars, except share and per share data)

	Share Capital				Contributed surplus	Retained earnings (deficit)	Accumulated other comprehensive (loss)	Total
	Common shares		Class B preferred shares					
	Shares	Amount	Shares	Amount				
	(Note 2)							
Balance at December 31, 2018	2,300,000	\$ -	-	\$ -	\$ -	\$ -	\$ -	\$ -
Shares returned to treasury	(2,300,000)	-	-	-	-	-	-	-
Issuance of common shares in connection with acquisition (Note 6)	9,200,000	3,824	-	-	-	-	-	3,824
Issuance of Class B preferred shares (note 17 (c))	-	-	7,000	3,500	-	-	-	3,500
Share-based payments (Note 21)	-	-	-	-	130	-	-	130
Net income and comprehensive loss	-	-	-	-	-	53	(1,302)	(1,249)
Balance at December 31, 2019	9,200,000	\$ 3,824	7,000	\$ 3,500	\$ 130	\$ 53	\$ (1,302)	\$ 6,205
Balance at December 31, 2019	9,200,000	\$ 3,824	7,000	\$ 3,500	\$ 130	\$ 53	\$ (1,302)	\$ 6,205
Share-based payments (Note 21)	-	-	-	-	811	-	-	811
Net loss and comprehensive loss	-	-	-	-	-	(6,583)	(1,006)	(7,589)
Balance at December 31, 2020	9,200,000	\$ 3,824	7,000	\$ 3,500	\$ 941	\$ (6,530)	\$ (2,308)	\$ (573)

The accompanying notes to the consolidated financial statements are an integral part of these consolidated financial statements.

KITS EYECARE LTD.**CONSOLIDATED STATEMENTS OF CASH FLOWS****For the years ended December 31, 2020 and 2019**

(in thousands of Canadian Dollars, except share and per share data)

	2020	2019
Operating activities		
Net income (loss)	\$ (6,583)	\$ 53
Items not affecting cash:		
Share-based payments	811	130
Depreciation of property and equipment	269	49
Amortization of intangible assets	1,744	1,275
Finance costs (Note 17(d))	3,096	1,855
Fair value accrual for Class A and Class C preferred shares (Note 17(b))	3,773	(24)
Income tax expense (Note 10)	(505)	37
Foreign exchange gain	(220)	(6)
Change in non-cash operating working capital:		
Accounts receivable	(205)	(490)
Inventory	(2,968)	(1,306)
Prepaid expenses and other assets	(962)	4
Accounts payable and accrued liabilities	5,443	2,405
Deferred revenue	417	352
Income tax paid – net of refunds (Note 10)	72	(188)
Cash provided by operating activities	4,182	4,146
Financing activities		
Repayment of lease obligation (Note 14 (b))	(311)	(153)
Net proceeds from loan (Note 17(a))	-	23,166
Repayment of loan (Note 17(a))	(4,527)	(1,395)
Proceeds from issuance of share capital (Note 17 (c))	-	7,000
Repurchase of share capital	-	-
Cash (used in) / provided by financing activities	(4,838)	28,618
Investing activities		
Purchase of property and equipment	(191)	(320)
Purchase of intangible assets	(34)	(673)
Net cash paid on acquisition of business (Note 6)	-	(28,275)
Cash used in investing activities	(225)	(29,268)
(Decrease)/ Increase in cash and cash equivalents	(881)	3,496
Foreign exchange effect on cash and cash equivalents	(209)	(98)
Cash and cash equivalents, beginning of period	3,398	-
Cash and cash equivalents, end of period	\$ 2,308	\$ 3,398

Supplementary cash flow information (note 23)

The accompanying notes to the consolidated financial statements are an integral part of these consolidated financial statements.

KITS EYECARE LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2020 and 2019

(in thousands of Canadian Dollars, except share and per share data)

1. Nature of operations

Kits Eyecare Ltd. (the "Company") is an online retailer of eyecare, with sales primarily in the United States and Canada. The Company was incorporated under the Business Corporations Act (British Columbia) on October 19, 2018 with its registered headquarters located at 1020 - 510 Seymour Street, Vancouver, BC, V6B 3J5.

On January 19, 2021, the Company completed its initial public offering and is listed on the Toronto Stock Exchange (the "TSX") under the symbol "KITS".

2. Basis of preparation and statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"), effective for the Company's reporting for the year ended December 31, 2020.

The consolidated financial statements have been prepared on a going concern basis, under the historical cost convention except for financial instruments that are measured at fair value.

On December 14, 2020, the Company completed a one-for-two and three tenths (1:2.3) share split of all of its issued and outstanding common shares ("Share Split"), resulting in an increase in the issued and outstanding shares from 4,000,000 to 9,200,000. Shares reserved under the Company's equity and incentive plans were adjusted to reflect the Share Split. All share and per share data presented in the Company's consolidated financial statements have been adjusted to reflect the Share Split unless otherwise noted.

These annual consolidated financial statements are approved by and authorized for issuance by the Company's Board of Directors on March 12, 2021.

3. Significant accounting policies:

The significant accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all periods presented, other than with respect to the adoption of new accounting standards as disclosed in note 5.

(a) Basis of presentation and consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiary, Kits.com Technologies Inc. The financial statements of the subsidiary are prepared for the same reporting period as the parent company, using consistent accounting policies. All intercompany transactions, balances, and unrealized gains or losses have been eliminated.

These consolidated financial statements are prepared and presented in Canadian dollars, which is also the functional currency of the Company.

(b) Foreign currency translation

Revenues, expenses, and non-monetary assets and liabilities denominated in foreign currencies are recorded at the exchange rate prevailing at the transaction date. Monetary assets and liabilities denominated in foreign currencies are translated at exchange rates prevailing at the reporting period end. Unrealized and realized translation gains and losses are reflected in the consolidated statements of income.

The assets and liabilities of the Company's wholly owned subsidiary, including goodwill and fair value adjustment arising on acquisition, whose functional currency is U.S. dollar, are translated into Canadian dollars at the exchange rates in effect at the reporting period end. Revenues and expenses are translated at average exchange rates for the period. Differences arising from the exchange rate changes are included in other comprehensive income in the cumulative translation account.

Foreign exchange gains or losses arising from a monetary item receivable from or payable to a subsidiary, the settlement of which is neither planned nor likely to occur in the foreseeable future and which in substance is considered to form part of the net investment in the foreign operation, are recognized in other comprehensive income in the cumulative translation account and reclassified from equity to the consolidated statements of income upon disposal of the net investment.

(c) Revenue recognition

The Company's primary source of revenue is derived from selling eyecare products online.

The Company recognizes revenue when control of the goods is transferred to the customer, which generally occurs upon delivery, to the customer. When the Company receives payment before performance obligations are satisfied, these payments are initially recorded as a contract liability under deferred revenue and recognized as revenue in the period when goods are delivered, and the control is transferred to the customer.

Revenue represents cash received from customers, net of sales taxes, rebates, and discounts and is presented net of an allowance for estimated returns, which is based on historical experience. Shipping fees billed to customers are recorded as revenue, and shipping costs incurred to deliver the goods to the customer from the Company's warehouse are recognized within fulfillment expenses in the same period the related revenue is recognized.

(d) Expenses

The Company classified its operating expenses as:

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 the Company's vendors.

Fulfillment costs primarily consist of those costs incurred in operating and staffing the Company's fulfillment, optical lab, and customer service centers, third party fulfillment and shipping costs, and payment processing costs.

Marketing costs include advertising and payroll and related expenses for personnel engaged in marketing and selling activities.

General and administrative expenses consist of payroll and related expenses for employees involved in general corporate functions, costs associated with use by these functions of facilities and equipment, professional fees, and other general corporate costs.

(e) Business combinations

Business acquisitions are accounted for using the acquisition method as of the acquisition date, which is the date when control is transferred to the Company. The consideration transferred in a business combination is measured at fair value, calculated as the sum of the acquisition date fair values of the assets transferred, liabilities incurred by the Company, and the equity interests issued by the Company in exchange for control of the acquiree. Transaction costs that the Company incurs in connection with a business combination are recognized in the consolidated statements of income as incurred.

Goodwill is measured as the excess of the sum of the fair value of the consideration transferred over the net of the amounts of the identifiable assets acquired and the liabilities assumed on the acquisition date.

To identify if an acquisition meets the definition of a business, the Company may apply the optional 'concentrate test' to aid the assessment of whether a transaction represents a business combination or is simply in substance the purchase of a single asset or group of similar assets.

Acquisitions that do not meet the definition of a business combination are accounted for as asset acquisitions. Consideration paid for an asset acquisition is allocated to the individual identifiable assets acquired and liabilities assumed based on their relative fair values. Asset acquisitions do not give rise to goodwill.

(f) Earnings per share

Basic earnings per share represents the income for the period, divided by the weighted average number of common shares outstanding during the period.

Diluted earnings per share represents the income for the period, divided by the weighted average number of common shares outstanding during the period plus the weighted average number of dilutive shares resulting from the exercise of stock options or conversion of preferred shares where the inclusion of these would not be anti-dilutive.

(g) Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held on call with banks and other short-term highly liquid investments with original maturities of three months or less.

(h) Trade receivables

Trade receivables consist of credit card receivables and are initially recognized at fair value and subsequently measured at amortized cost using the effective interest method, less expected credit loss. Any allowance for expected credit loss is recorded against trade receivables and is based on historical experience.

(i) Inventory

Inventory consists of optical products held for sale and are stated at the lower of cost and net realizable value. Included in the cost of inventories are costs of purchase net of vendor allowances, plus other costs, such as transportation and duties, that are directly incurred to bring inventories to their present location and condition. Cost is determined using the weighted average cost method, based on individual products. Net realizable value is the estimated selling price in the normal course of business less the estimated costs necessary to make the sale. Storage costs, indirect administrative overhead and certain selling costs related to inventories are expensed in the period that these costs are incurred. Inventories are written down to net realizable value when the cost of inventories is estimated to be unrecoverable due to obsolescence, damage, or declining selling prices. When circumstances that previously caused inventories to be written down below cost no longer exist

or when there is clear evidence of an increase in realizable value, the amount of the write-down previously recorded is reversed.

(j) Property and equipment

Property and equipment are recorded at cost, less accumulated depreciation. Costs includes all costs required to bring the item into its intended use. Depreciation methods and useful lives are reviewed annually and are adjusted prospectively, if appropriate.

Depreciation is determined at the following annual rates:

Office and computer equipment	20% to 30% declining-balance
Furniture and fixtures	20% declining-balance
Warehouse leasehold improvements	Straight-line over the life of lease

(k) Leases

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Company assesses whether the contract involves the use of an identified asset, whether the Company has the right to obtain substantially all of the economic benefits from use of the asset during the term of the arrangement and whether the Company has the right to direct the use of the asset.

At inception or on modification of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component relative to each component's stand-alone value. For the leases of property, the Company has elected to separate non-lease components and account for the lease and non-lease components separately.

As a lessee, the Company recognizes a right-of-use asset and a lease liability at the commencement date of a lease. The right-of-use asset is initially measured at cost, which is comprised of the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any decommissioning and restoration costs, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the date the leased asset is available for use to the end of the lease term or useful life of the asset. In addition, the right-of-use asset may be reduced due to impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the net present value of the lease payments discounted by either the interest rate implicit in the lease or if that rate cannot be readily determined, the Company's incremental borrowing rate. Lease payments included in the measurement of the lease liability are comprised of:

- fixed payments, including in-substance fixed payments; and
- the exercise price under a purchase option that the Company is reasonably certain to exercise.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, or if there is a change in our estimate or assessment of the expected amount payable under a residual value guarantee, purchase, extension or termination option. Variable lease payments not included in the initial measurement of the lease liability are charged directly to profit.

The Company has elected not to recognize right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets. The lease payments associated with these leases are charged directly to the consolidated statements of income on a straight-line basis over the lease term.

(l) Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of an intangible asset acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets with finite lives are carried at cost less any accumulated amortization and any accumulated impairment losses.

Intangible assets with a finite life are amortized on a straight-line basis over their estimated useful economic lives as follows:

Domain names	indefinite life
Software	4 years
Customer relationships	5 years

The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life are considered to modify the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the consolidated statements of income.

The domain names are considered to have an indefinite life based on a history of revenue and cash flow performance, and the intent and ability of the Company to continue the use of the domain names for the foreseeable future. The domain names are tested at least annually for impairment, at the cash generating unit ("CGU") level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is made on a prospective basis.

(m) Goodwill

Goodwill is the residual amount that results when the purchase price of an acquired business exceeds the sum of the amounts allocated to the identifiable assets acquired, less liabilities assumed, based on their fair values. Goodwill is allocated, at the date of the business acquisition, to the Company's reporting units that are expected to benefit from the synergies of the business combination. Goodwill is not amortized and is tested at least annually for impairment or whenever changes in circumstances indicate that the carrying amount of the reporting unit to which goodwill is assigned may exceed the recoverable amount of the reporting unit. When the carrying amount of a reporting unit, including goodwill, exceeds its recoverable amount, an impairment loss is charged to goodwill in an amount equal to the excess of the goodwill balance. An impairment loss is not subsequently reversed.

(n) Impairment of long-lived assets

The carrying amount of the Company's non-financial assets (other than contract assets) is reviewed at each reporting date to determine whether there is any indication of impairment. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. An impairment loss is recognized whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis. Impairment losses are recognized in the consolidated statements of income.

The recoverable amount of an asset is the greater of its fair value less cost to sell and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independently of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is only reversed if there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount, however, not to an amount higher than the carrying amount that would have been determined had no impairment loss been recognized in previous years. Assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment.

(o) Income taxes

Income tax expense comprises current and deferred tax. It is recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

The Company has determined that interest and penalties related to income taxes, including uncertain tax treatments, do not meet the definition of income taxes, and has accounted for them under IAS 37 Provisions, Contingent Liabilities and Contingent Assets.

Current tax

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to the tax payable or receivable in respect of previous years. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any. It is measured using tax rates enacted or substantively enacted at the reporting date. Current tax also includes any tax arising from dividends.

Current tax assets and liabilities are offset only if certain criteria are met.

Deferred tax

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries, associates, and joint arrangements to the extent that the Company is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising upon the initial recognition of goodwill.

Deferred tax assets are recognized for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Future taxable profits are determined based on the reversal of relevant taxable temporary differences. If the amount of taxable temporary differences is insufficient to recognize a deferred tax asset in full, then future taxable profits, adjusted for reversals of existing temporary differences, are considered, based on the business plans for individual subsidiaries in the Company. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized; such reductions are reversed when the probability of future taxable profits improves.

Unrecognized deferred tax assets are reassessed at each reporting date and recognized to the extent that it has become probable that future taxable profits will be available against which they can be used.

(p) Share-based compensation and other share-based payments

Share-based payments to employees are measured at the fair value of the instruments issued and amortized over the vesting periods. Share-based payments to non-employees are measured at the fair value of goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received. The corresponding amount is recorded to the share-based payment. The fair value of options is determined using the Black–Scholes option pricing model. The number of shares and options expected to vest are reviewed and adjusted at the end of each reporting period such that the amount recognized for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest.

Upon the settlement of equity settled awards, the balance of the contributed surplus related to those rights and awards is transferred to share capital.

(q) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issuance of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

The Company's preferred shares that have the following features: redemption/retraction rights, non-discretionary dividends, and conversion rights to a variable number of common shares are classified as financial liabilities. On issuance, the fair value of these preferred shares is determined and are subsequently measured as fair value through profit and loss. The dividends on these preference shares are recognized in profit or loss as finance costs.

The Company's preferred shares that are non-redeemable with mandatory fixed dividends payments and fixed conversion right are separated into liability and equity components based on terms of the contract. On issuance, the fair value of the liability component is determined using the discounted cash flow method. This amount is recorded as a liability on an amortized cost basis until extinguished on conversion of the preference shares. The remainder of the proceeds are allocated to the conversion option that is recognized and included in equity.

(r) Loans

Loans are initially recognized at fair value, net of transaction costs incurred. Loans are subsequently measured at amortized cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognized in profit or loss over the period of the borrowings using the effective interest method.

Loans are derecognized from the consolidated statement of financial position when the obligation specified in the contract is discharged, cancelled, or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss as finance costs.

Loans are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

(s) Financial instruments

Classification

The Company classifies its financial instruments in the following categories: at fair value through profit and loss (“FVTPL”), at fair value through other comprehensive income (loss) (“FVTOCI”) or at amortized cost. The Company determines the classification of financial instruments at initial recognition.

The classification of financial assets is driven by the Company’s business model for managing the financial assets and their contractual cash flow characteristics.

Financial liabilities are measured at amortized cost, unless they are required to be measured at FVTPL (such as instruments held for trading or derivatives) or if the Company has opted to measure them at FVTPL.

Measurement

- Financial assets and liabilities at amortized cost

Financial assets and liabilities at amortized cost are initially recognized at fair value plus or minus transaction costs, respectively, and subsequently carried at amortized cost less any impairment.

- Financial assets and liabilities at FVTPL

Financial assets and liabilities carried at FVTPL are initially recorded at fair value and transaction costs are expensed in the consolidated statements of income. Realized and unrealized gains and losses arising from changes in the fair value of the financial assets and liabilities held at FVTPL are included in the consolidated statements of income in the period in which they arise. Where management has opted to recognize a financial liability at FVTPL, any changes associated with the Company’s own credit risk will be recognized in other comprehensive income (loss).

Impairment of financial assets at amortized cost

The Company recognizes a loss allowance for expected credit losses on financial assets that are measured at amortized cost.

At each reporting date, the Company measures the loss allowance for the financial asset at an amount equal to the lifetime expected credit losses if the credit risk on the financial asset has increased significantly since initial recognition. If at the reporting date, the financial asset has not increased significantly since initial recognition, the Company measures the loss allowance for the financial asset at an amount equal to the twelve month expected credit losses. The Company shall recognize in the consolidated statements of income as an impairment gain or loss, the amount of expected credit losses (or reversal) that is required to adjust the loss allowance at the reporting date to the amount that is required to be recognized.

Derecognition

The Company derecognizes financial assets only when the contractual rights to cash flows from the financial assets expire, or when it transfers the financial assets and substantially all of the associated risks and rewards of ownership to another entity. Gains and losses on derecognition are generally recognized in the consolidated statements of income and consolidated statements of comprehensive loss. However, gains and losses on derecognition of financial assets classified as FVTOCI remain within accumulated other comprehensive income (loss).

The Company derecognizes financial liabilities only when its obligations under the financial liabilities are discharged, cancelled, or expired. Generally, the difference between the carrying amount of the financial liability derecognized and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognized in the consolidated statements of income.

4. Significant accounting judgments, estimates and assumptions

The preparation of the consolidated financial statements requires management to make estimates and judgments in applying the Company's accounting policies that affect the reported amounts and disclosures made in the consolidated financial statements and accompanying notes.

Estimates and assumptions are used mainly in determining the measurement of balances recognized or disclosed in the consolidated financial statements and are based on a set of underlying data that may include management's historical experience, knowledge of current events and conditions and other factors that are believed to be reasonable under the circumstances.

Management continually evaluates the estimates and judgments used in the preparation of the financial statements. These estimates and judgments have been applied in a manner consistent with prior periods and there are no known trends, commitments, events or uncertainties that management believes will materially affect the methodology or assumptions utilized in making these estimates and judgments.

The following are the accounting policies subject to judgments and key sources of estimation uncertainty that the Company believes could have the most significant impact on the amounts recognized in the consolidated financial statements.

Inventories

Key Sources of Estimation: Inventories are carried at the lower of cost and net realizable value. In estimating net realizable value, the Company uses estimates related to fluctuations in inventory levels, planned production, customer behaviour, obsolescence, future selling prices, and costs necessary to sell the inventory.

Revenue

Key Sources of Estimation: 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

Judgments Made in Relation to Accounting Policies Applied: The Company exercises judgment when contracts are entered into that may give rise to a right-of-use asset that would be accounted for as a lease. Judgment is required in determining the appropriate lease term on a lease by lease basis. The Company considers all facts and circumstances that create an economic incentive to exercise a renewal option or to not exercise a termination option at inception and over the term of the lease, including investments in major leaseholds, operating performance, and changed circumstances. The periods covered by renewal or termination options are only included in the lease term if the Company is reasonably certain to exercise that option. 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.

Key Sources of Estimation: The critical assumptions and estimates used in determining the present value of future lease payments require the Company to estimate the incremental borrowing rate specific to each leased asset or portfolio of leased assets. Management determines 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 & equipment, and right-of-use assets)

Judgments Made in Relation to Accounting Policies Applied: Management is required to use judgment in determining the grouping of assets to identify their CGUs for the purposes of testing non-financial assets for impairment. The Company has concluded that it has only 1 CGU and tests goodwill and these intangible assets for impairment on that basis.

Key Sources of Estimation: In determining the recoverable amount of the CGU, various estimates are employed. The Company determines value-in-use by using estimates including projected future revenues, margins, costs, and capital investment consistent with strategic plans presented to the Board of Directors and key management. Discount rates are consistent with external industry information reflecting the risk associated with the Company and its cash flows.

Fair value of financial instruments (Class A and Class C preferred shares)

Key Sources of Estimation: The critical assumptions and estimates used in determining the fair value of the preferred shares are: probability of the occurrence of the redemption/retracting, probability and timing of payment of dividends to the holders, the likelihood and timing of the holders exercising their conversion rights, and the discount rate used.

Share-based payments

Key Sources of Estimation: 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; forfeiture rate; risk-free interest rate; expected time to exercise in years; expected dividend yield, and volatility.

COVID-19 pandemic

In March 2020, the World Health Organization declared a global pandemic related to COVID-19. As a result of the pandemic, the Company observed a shift in shopping behavior from traditional brick-and-mortar stores to online shopping, and the Company had benefited from this change in customer habits with an increase in both orders and the onboarding rate for of new customers with an increase in revenues recorded in 2020.

To address the healthy spacing requirements, the Company split its warehouse into two shifts and opened an additional facility. In addition, the Company had some temporary and permanent loss of staff due to quarantines and other COVID-19 related reasons. These factors are resulting in higher operating expenses in 2020. These impacts and other potential COVID-related factors could lead to continued changes in revenue and/or profitability that the Company cannot predict.

Although global market conditions may have affected market confidence and consumer spending patterns, the Company remains well placed to grow revenues through ongoing product and service innovations. The Company has reviewed its exposure from other emerging business risks but has not identified any other risks that could significantly impact the estimates used in the determination of the valuation of inventory, lease liability, the recoverable amount of its long-lived assets and the fair value of the Class A and Class C preferred shares that will have a significant impact on the Company's financial performance or position.

5. Change in accounting policies

The Company applied for the first-time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2020. The Company has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

Amendments to IAS 1 and IAS 8: Definition of Material

The amendments provide a new definition of material that states, "information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of

general-purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.” The amendments clarify that materiality will depend on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. These amendments had no impact on the consolidated financial statements of, nor is there expected to be any future impact to the Company.

Standards issued but not yet effective continued

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Company’s financial statements are disclosed below. The Company intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

Amendments to IAS 1: Classification of Liabilities as Current or Non-current

In January 2020, the IASB issued amendments to paragraphs 69 to 76 of IAS 1 to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

- What is meant by a right to defer settlement
- That a right to defer must exist at the end of the reporting period
- That classification is unaffected by the likelihood that an entity will exercise its deferral right
- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and must be applied retrospectively. The amendments are not expected to have a material impact on the Company.

IFRS 9 Financial Instruments – Fees in the ‘10 per cent’ test for derecognition of financial liabilities

As part of its 2018-2020 annual improvements to IFRS standards process the IASB issued amendment to IFRS 9. The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other’s behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 with earlier adoption permitted. The Company will apply the amendments to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment. The amendments are not expected to have a material impact on the Company.

6. Business combination

On April 5, 2019, the Company acquired all of the outstanding shares of Kits.com Technologies Inc. ("Kits.com") for total purchase consideration of \$46.5 million. Kits.com provides contact lenses and eyewear online, with sales primarily in the United States and Canada. The Company acquired Kits.com to access its unique customer base of vision-corrected customers and its advanced and proprietary technology platform which is highly automated and efficient. Management determined that the assets and processes comprised a business and therefore accounted for the transaction as a business combination using the acquisition method of accounting.

The following table summarizes the fair value of the consideration transferred and the preliminary estimated fair values of the consideration and the major classes of assets acquired and liabilities assumed at the acquisition date. The fair value of the consideration was based on management’s assessment of the features of the shares issued, including market value and the value of expected cash flows. Changes in estimates and

assumptions used in the determination of the fair value of the common shares and Class A preferred shares could have a material impact on the amount of goodwill recorded.

Cash	\$ 32,676
Issuance of 10,000 Class A preferred shares	10,000
Issuance of 4,000,000 common shares	3,824
Purchase consideration:	<u>\$ 46,500</u>
Assets	
Cash and cash equivalents	\$ 4,401
Inventory	1,410
Intangible assets	8,520
Other assets	591
Total assets	<u>14,922</u>
Liabilities	
Accounts payable and accrued liabilities	(2,666)
Deferred revenue	(1,479)
Tax payable	(319)
Deferred tax liabilities	(2,192)
Total liabilities	<u>(6,656)</u>
Fair value of net identifiable assets acquired	<u>8,266</u>
Goodwill	<u>\$ 38,234</u>

Identifiable intangible assets acquired consist mainly of customer relationships and software. The fair value of the customer relationships was \$6.6 million measured using the income approach and the multiple period excess earnings method. Under this approach, the fair value of customer relationships was valued using the present value of estimated net cash flows expected to be generated by the customer relationships, by excluding any cash flows related to contributory assets. The fair value of software was \$1.6 million, measured using the replacement cost method. Under this method, the software was valued based upon the costs the Company would incur to develop a similar asset. The Company considered the length of time over which the economic benefits of these assets is expected to be realized and estimated the useful life of such assets accordingly as at the acquisition date. Specifically, the estimated useful life of customer relationships and software was estimated to be 5 years and 4 years respectively and amortized on a straight-line basis. Fair value of inventories acquired was estimated using a market comparison technique. Under this approach, the fair value is determined based on the estimated selling price in the ordinary course of business less the estimated costs of completion and sale, and a reasonable profit margin based on the effort required to complete and sell the inventories.

The fair value of intangible assets acquired has been determined using valuation techniques that require estimation of future earnings, future net cash flows, and discount rates. Changes in estimates and assumptions used could have a material impact on the amount of goodwill recorded and the amount of depreciation and amortization expense recognized in earnings for depreciable assets in future periods.

The excess of the purchase consideration over the fair value of the identifiable assets acquired has been accounted for as goodwill. Goodwill was mainly attributable to the expected future growth potential of the business and acquired assembled workforce and is not deductible for tax purposes.

In the period from April 5, 2019 to December 31, 2019, Kits.com's operations contributed revenue of \$36,897 and income before income taxes of \$2,230. If the acquisition had occurred on January 1, 2019, management estimates that unaudited consolidated revenue for the year ended December 31, 2019 would have been \$49,947, and unaudited consolidated net income would have been \$583. In determining these amounts, management has assumed that the fair value adjustments, determined provisionally, that arose on the date of acquisition would have been the same if the acquisition had occurred on January 1, 2019.

During the year ended December 31, 2020, the Company incurred addition acquisition-related costs of \$165 on compliance and professional fees. During the year ended December 31, 2019, the Company incurred acquisition-related costs of \$267 on legal fees and due diligence costs. These costs have been included in general and administrative expenses.

7. Asset Acquisition

On April 5, 2019, the Company purchased the following assets from Rain City Labs Inc. and issued 300 Class C preferred shares as consideration. The purchase of assets has been accounted for as an acquisition of assets as the purchased assets did not meet the definition of a business under IFRS 3.

The assets acquired were recorded at the fair value of the consideration transferred.

Issuance of 300 Class C preferred shares	\$	300
Purchase consideration:	\$	300
Assets		
Inventory	\$	121
Domain names		179
Total assets acquired	\$	300

The fair value of the Class C preferred shares was determined using the expected cash outflows on the elements of Class C preferred shares (note 17(b)). Changes in estimates and assumptions used in the determination of the fair value of Class C preferred shares could have a material impact on the value of the domain names acquired.

8. Segment information and deferred revenue

The Company operates in a single reportable operating segment, being the sale of eyecare products to consumers.

Geographic information

The Company determines the geographic location of revenue based on the location of its customers.

	2020	2019
United States	\$ 61,262	\$ 29,340
Canada	13,917	7,535
Rest of the world	38	22
Total	\$ 75,217	\$ 36,897

All of the Company's non-current assets are located in Canada.

Deferred revenue

Deferred revenue consists of credit vouchers of \$569 (2019: \$1,288), unfulfilled orders of \$1,482 (2019: \$445) and allowance of estimated returns of \$197 (2019: \$98). Credit vouchers relate to vouchers that have been issued or sold to customers. Revenue from credit vouchers is recognized when the vouchers are redeemed, when the likelihood of redemption becomes remote, or when the vouchers expire.

9. Expenses

Fulfillment

Fulfillment costs primarily consist of those costs incurred in operating and staffing the Company's fulfillment, optical lab, and customer service centers, third party fulfillment costs, and payment processing costs. During the year ended December 31, 2020, the Company incurred \$4,001 (2019: \$1,555) of shipping expenses, \$1,841 (2019: \$355) of wages, salaries, and benefits, payment processing fees of \$1,601 (2019: \$802) and other expenses of \$155 (2019: \$5).

Marketing

Marketing costs include advertising and payroll and related expenses for personnel engaged in marketing and selling activities. During the year ended December 31, 2020, marketing expense comprises of \$7,562 (2019: \$3,145) of advertising and promotion, \$218 (2019: \$23) of wages, salaries and benefits and \$56 (2019: \$nil) of share-based payments.

General and administrative

General and administrative expenses consist of payroll and related expenses for employees involved in general corporate functions, costs associated with use by these functions of facilities and equipment, professional fees, technology expenses, and other general corporate costs. During the year ended December 31, 2020, general and administrative expenses consist of wages, salaries and benefits of \$1,400 (2019: \$851), rental expenses of \$219 (2019: \$157), share-based payment of \$743 (2019: \$130), one-time fee related to the acquisition of Kits.com of \$165 (2019: \$267), one-time fee relating to the Company's initial public offering of \$769 (2019: \$nil), technology expense of \$642 (2019: \$108), exchange gain of \$338 (2019: \$28) and other expense of \$219 (2019: \$39).

10. Income taxes

Income tax expense

For the year ended December 31, 2020, the Company recorded an income tax recovery of \$505 (2019: income tax expense of \$37) which comprise of current income tax expense of \$32 (2019: \$312) and a deferred tax recovery of \$537 (2019: \$275). Included in the current income tax recovery is a current tax expense of \$42 (2019: \$438) offset by a recovery for current tax of prior periods of \$10 (2019: \$126).

Reconciliation of effective tax rate

	2020	2019
Net (loss)/income before income taxes	\$ (7,088)	\$ 90
Combined Canadian statutory income tax rate	27%	27%
Income tax expense computed at statutory income tax rate	(1,914)	24
Tax effect of:		
Non-deductible expenses	1,561	188
Benefits from small business deduction	(80)	(59)
Investment tax credit	(83)	-
Effect of foreign exchange on income taxes	(21)	(45)
Additional taxes that are payable in foreign jurisdictions	42	55
Adjustments for current tax of prior periods	(10)	(126)
Income tax expense / (recovery)	<u>\$ (505)</u>	<u>\$ 37</u>

Deferred income tax assets and liabilities

Deferred tax liabilities on the consolidated statements of financial position consist of deferred income tax assets of \$210 (2019: \$5) and a deferred income tax liability of \$1,513 (2019: \$1,866). The following temporary differences and tax losses give rise to deferred income tax assets and liabilities as at:

	2020	2019
Property, plant and equipment, right of use assets and net of lease liability	\$ (98)	\$ (83)
Intangible assets	(1,421)	(1,903)
Deferred revenue	-	116
Other	216	9
Net deferred income tax asset (liability)	<u>\$ (1,303)</u>	<u>\$ (1,861)</u>

The Company intends to indefinitely reinvest the undistributed earnings of its subsidiary; accordingly, the Company has not recognized tax on these earnings.

11. Accounts and other receivables

Accounts receivables consist of credit card receivables and rebates from suppliers of \$1,001 (2019: \$845) and GST receivable of \$108 (2019: \$ nil)

12. Inventory

As at December 31, 2020, the inventory mainly comprised of \$4,552 (2019: \$2,136) of contact lens, \$1,051 (2019: \$666) of frames, prescription lens of \$157 (2019: \$15) and other miscellaneous inventory of \$45 (2019: \$20). For the year ended December 31, 2020, the total amount of inventory recognized as a cost of sales was \$24,620 (2019: \$6,488) and no provision of inventory obsolescence was recognized (2019: \$nil).

13. Property and Equipment

	Office and computer equipment	Furniture and fixtures	Warehouse Improvements	Capital work-in- progress	Total
Year ended 31 December 2020					
Opening net book value	\$ 293	\$ 41	\$ -	\$ -	\$ 334
Additions	139	3	44	5	191
Depreciation	(112)	(9)	(6)	-	(127)
Exchange differences	(5)	-	(2)	-	(7)
Net Book value at 31 December 2020	<u>\$ 315</u>	<u>\$ 35</u>	<u>\$ 36</u>	<u>\$ 5</u>	<u>\$ 391</u>
	Office and computer equipment	Furniture and fixtures	Warehouse Improvements	Capital work-in- progress	Total
Year ended 31 December 2019					
Opening net book value	\$ -	\$ -	\$ -	\$ -	\$ -
Acquired through business combination (note 6)	12	13	-	-	25
Additions	291	30	-	-	321
Depreciation	(13)	(5)	-	-	(18)
Exchange differences	3	3	-	-	6
Net Book value at 31 December 2019	<u>\$ 293</u>	<u>\$ 41</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 334</u>

As at December 31, 2020, the cost of office and computer equipment is \$477, (2019: \$350), furniture and fixtures is \$71 (2019: \$69), warehouse improvements is \$42 (2019: \$nil); and capital work-in-progress is \$5 (2019: \$nil); and the accumulated depreciation of office and computer equipment is \$162 (2019: \$57), furniture and fixtures is \$36 (2019: \$28), warehouse improvements is \$6 (2019: \$nil); and capital work-in-progress is \$nil (2019: \$nil).

14. Leases

The Company leases equipment and warehouse.

(a) Right-of-use assets

As at December 31, 2020, the cost of equipment is \$1,161 (2019: \$620) and warehouse building is \$180 (2019: \$184) and the accumulated depreciation of equipment is \$90 (2019: \$16) and warehouse building is \$75 (2019: \$15). The following table presents changes in the cost and the accumulated depreciation of the Company's right-of-use assets.

	Equipment	Warehouse building	Total
Year ended 31 December 2020			
Opening net book value	\$ 604	\$ 169	\$ 773
Additions	580	-	580
Depreciation	(79)	(63)	(142)
Exchange differences	(34)	(1)	(35)
Net Book value at 31 December 2020	<u>\$ 1,071</u>	<u>\$ 105</u>	<u>\$ 1,176</u>
	Equipment	Warehouse building	Total
Year ended 31 December 2019			
Opening net book value	\$ -	\$ -	\$ -
Additions	630	188	818
Depreciation	(16)	(18)	(34)
Exchange differences	(10)	(1)	(11)
Net Book value at 31 December 2019	<u>\$ 604</u>	<u>\$ 169</u>	<u>\$ 773</u>

(b) Lease liabilities

As at December 31, 2020, the current lease liabilities of equipment is \$147 (2019: \$72) and warehouse building is \$63 (2019: \$57) and the non-current lease liability of equipment is \$747 (2019: 430) and warehouse building is \$53 (2019: \$116). The following table presents the changes in the Company's lease liabilities:

	Equipment	Warehouse building	Total
Year ended 31 December 2020			
Opening balance	\$ 502	\$ 173	\$ 675
Additions	580	-	580
Principal payments	(243)	(68)	(311)
Interest expense (note 17 (d))	52	11	63
Exchange differences	30	1	31
Impact of translation	(27)	(1)	(28)
As at 31 December 2020	<u>\$ 894</u>	<u>\$ 116</u>	<u>\$ 1,010</u>
	Equipment	Warehouse building	Total
Year ended 31 December 2019			
Opening balance	\$ -	\$ -	\$ -
Additions	630	188	818
Principal payments	(136)	(17)	(153)
Interest expense (note 17 (d))	11	2	13
Exchange differences	6	3	9
Impact of translation	(9)	(3)	(12)
As at 31 December 2019	<u>\$ 502</u>	<u>\$ 173</u>	<u>\$ 675</u>

Short-term leases are not included in the calculation of lease liabilities. For the year ended December 31, 2020, \$219 (2019: \$157) of short-term lease expenses were recognized in general and administrative expenses. The future undiscounted minimum lease commitments for the Company's leases for its premises and equipment, excluding other occupancy charges and variable lease payments, are as follows:

	2020	2019
Less than 1 year	\$ 283	\$ 180
Between 1 and 5 years	876	567
More than 5 years	60	78
	<u>\$ 1,219</u>	<u>\$ 825</u>

15. Intangible assets and goodwill

	Goodwill	Domain names	Proprietary Software	Customer relationship	Total
Year ended 31 December 2020					
Opening net book value	\$ 37,178	\$ 1,085	\$ 1,284	\$ 5,518	\$ 45,065
Additions	-	34	-	-	34
Amortization	-	-	(407)	(1,337)	(1,744)
Exchange differences	(733)	(4)	(4)	(42)	(783)
Net Book value at 31 December 2020	<u>\$ 36,445</u>	<u>\$ 1,115</u>	<u>\$ 873</u>	<u>\$ 4,139</u>	<u>\$ 42,572</u>
At 31 December 2020					
Cost	\$ 36,445	\$ 1,115	\$ 1,575	\$ 6,476	\$ 45,611
Accumulated amortization	-	-	(702)	(2,337)	(3,039)
Net book value	<u>\$ 36,445</u>	<u>\$ 1,115</u>	<u>\$ 873</u>	<u>\$ 4,139</u>	<u>\$ 42,572</u>
	Goodwill	Domain names	Proprietary Software	Customer relationship	Total
Year ended 31 December 2019					
Opening net book value	\$ -	\$ -	\$ -	\$ -	\$ -
Acquired through business combination (note 6)	38,234	240	1,620	6,660	46,754
Acquired through asset acquisition	-	179	-	-	179
Additions	-	673	-	-	673
Amortization	-	-	(297)	(978)	(1,275)
Exchange differences	(1,056)	(7)	(39)	(164)	(1,266)
Net Book value at 31 December 2019	<u>\$ 37,178</u>	<u>\$ 1,085</u>	<u>\$ 1,284</u>	<u>\$ 5,518</u>	<u>\$ 45,065</u>
At 31 December 2019					
Cost	\$ 37,178	\$ 1,085	\$ 1,575	\$ 6,476	\$ 46,314
Accumulated amortization	-	-	(291)	(958)	(1,249)
Net book value	<u>\$ 37,178</u>	<u>\$ 1,085</u>	<u>\$ 1,284</u>	<u>\$ 5,518</u>	<u>\$ 45,065</u>

The annual impairment test of goodwill and indefinite life intangible assets was performed on December 31, 2020 and December 31, 2019 and did not result in any goodwill impairment loss.

The Company only has one cash generating unit ("CGU") and the recoverable amount of the CGU was based on its value in use, calculated using discounted cash flows over three years with a terminal value generated from continuing use of the CGU. The calculation of the recoverable amount of the CGU was determined using discounted cash flow projections based on financial forecasts approved by management covering a three-year period (Level 3 of the fair value hierarchy), a mid term growth rate of 10% and a terminal growth assumption of 2% (2019: 2%). The terminal growth rate was determined based on management's estimate of the long-term compound annual EBITDA growth rate, consistent with the assumptions that a market participant would make.

The key assumptions and estimates used in determining the recoverable amount are related to revenue and EBITDA assumptions, which are based on the financial forecast and assumed growth rates, working capital assumptions and the pre-tax discount rate of 16.5% (2019: 19.7%) applied to the cash flow projections. The pre-tax discount rate 16.5% (2019: 19.7%) is based on a risk-free rate, an equity risk premium adjusted for the Company being privately held but with certain go public assumptions, company-specific risk premium, a cost of debt based on comparable corporate bond yields and the capital structure of the Company.

Cash flows were projected based on expected operating results which are based on past performance and management's expectations of the Company's revenue and EBITDA growth for the next three years. The average EBITDA and revenue growth rates are based on management's planned marketing initiatives and investments to acquire new customers and retain existing customers which are anticipated to be initially funded from the proceeds from the Company's IPO in January 2021.

Reasonable changes in these key assumptions would not cause the carrying amount to exceed the estimated recoverable amount. A 1% increase in the pre-tax discount rate would change the estimated recoverable amount by 8.2% and a 1% decrease in EBITDA would change the estimated recoverable amount by 1.5%.

These assumptions are subjective judgements based on the Company's experience, knowledge of operations and knowledge of the economic environment in which it operates. If future cash flow projections, long-term growth rates or pre-tax discount rates are different to those used, it is possible that the outcome of future impairment tests could result in a different outcome with a CGU's goodwill and/or intangible assets being impaired.

16. Accounts payable and accrued liabilities

As at December 31, 2020, the Company has recorded accounts payable of \$9,616 (2019: \$4,860) and accrued liabilities and other payables of \$777 (2019: \$189).

17. Financial liabilities

(a) Loan

	2020	2019
Opening balance	\$ 23,199	\$ -
Proceeds received	-	23,400
Transaction costs	-	(234)
Interest expense on loan (note 17(d))	1,594	1,428
Payments	(4,527)	(1,395)
Accretion expense on loan due to one-time bonus payable to BDC at maturity (note 17(d))	1,056	0
Loan	\$ 21,322	\$ 23,199

The Company entered into a secured loan agreement for \$23.4 million with BDC Capital Inc. ("BDC") on March 26, 2019, with a repayment date of March 15, 2026. This loan bears interest at BDC floating rate minus 1%, plus a variance of 2.95% per annum and is payable on a monthly basis. As at December 31, 2020, BDC floating rate was 4.55% (2019: 6.05%). 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.

During the year ended December 31, 2020, the Company entered into several loan amendments with BDC providing for, among other things, (i) BDC is entitled to a one-time payment, due, at its option, upon maturity or completion by the Company of a initial public offering, equal to 0.45% of the Company's annual gross sales for the applicable annual period, which BDC has opted to trigger upon maturity at which time the calculation will be made, (ii) amendments to and waiver of various covenants as at December 31, 2020 and (iii) increase of interest rate variance from 2.95% per annum to 4.45% effective of January 15, 2021.

The Company is subject to various covenants under the BDC Loan, including requirements to maintain certain financial ratios. The BDC Loan balance was classified as a current liability as of December 31, 2020 as the Company would not have met a financial ratio requirement as at December 31, 2020 which was subsequently waived by the BDC (Note 26). The BDC Loan is in good standing as of the date hereof and the long-term debt is no longer considered a current liability..

As at December 31, 2020, the carrying amount of the loan is \$21,322 (2019: \$23,199). For the year ended December 31, 2020, the Company recognized \$1,594 (2019: \$1,428) of interest expense and a one-time cost of \$1,056 (2019: \$nil) relating to the accrual of the one-time payment at maturity to BDC in finance costs. Interest expense is calculated by applying the effective interest rate of 6.95% (2019: 8.59%)

(b) Class A and Class C preferred shares

On April 5, 2019, the Company issued 10,000 Class A (note 6) and 300 Class C preferred shares (note 7) with a par value of \$1,000 for each preferred share. After the year end, the holders of preferred shares provided their notice of conversion to the Company. These preferred shares were converted to the Company's common shares and the Company issued a promissory note to the holders for the dividends payable. With the conversion to Company's common shares after the year end, there are no longer any Class A or Class C preferred shares outstanding (Note 26).

These preferred shares are redeemable and retractable at \$1,000 per share, non-voting with a cumulative dividend at 8%. The holders of the preferred shares may convert the issued par value of the preferred shares into: common shares of the Company at a price equal to 80% of the issuance price of future issuances of common shares at the time of such issuance; or debt due at the request of the holder or at the option of the Company, with written consent from BDC prior to the long-term debt maturity (note 17a). Since these shares are redeemable and the Company is obliged to pay annual dividends to the holders, these shares are recognized as financial liabilities ("host instrument"). As the holders may convert these shares to common share of the Company, the conversion right is an embedded derivative that is closely related to the host instrument since the conversion right would modify the timing of the cash flows of the redemption and dividends payment. These shares are measured at FVTPL. The fair value of the Class A and C preferred shares was determined using a discounted cash flow method applied to the expected timing and cash outflows associated with the elements of Class A and C preferred shares: (1) redemption/retraction feature, (2) dividend payable, and (3) conversion right. See note 18 for details.

As at December 31, 2020, the fair value of the Class A and C preferred shares was \$14,049 (2019: \$10,276). For the year ended December 31, 2020, the Company recognized an increase of \$3,773 (2019: decrease of \$24) in a one-time, non-cash fair value accrual for the Class A and Class C preferred shares liability based on the expected conversion of the preferred shares which occurred upon the IPO in January 2021. A 1% increase in the discount rate would change the fair value by 0.2% and a change in the timing of the conversion right and payment of dividend payable by a year would change the fair value by 2.7%.

(c) Class B preferred shares

On April 5, 2019, the Company issued 7,000 Class B preferred shares with a par value of \$1,000 for each preferred share in exchange for \$7,000. After the year end, the holders of preferred shares provided their notice of conversion to the Company. These preferred shares were converted to the Company's common shares and the Company issued a promissory note to the holders for the dividends payable. With the conversion to Company's common shares after the year end, there are no longer any Class B preferred shares outstanding. (Note 26).

These preferred shares are non-redeemable, non-retractable, each convertible into 857 1/7 common shares and entitled to 857 1/7 votes, and are entitled to a cumulative dividend of 8%. The Class B preferred shares are presented on the statement of financial position as follows:

	2020	2019
Opening balance	\$ 3,914	\$ -
Proceeds received	-	7,000
Other equity securities: value of conversion rights	-	(3,500)
Interest expense recognized in finance costs	562	414
One-time gain on Class B preferred shares -due to change in cashflow estimates	(178)	
Non-current liability as at December 31, 2020	\$ 4,298	\$ 3,914

Since the Company is obliged to pay annual dividends to the holder, dividends payable are recognized as liabilities. The initial fair value of the liability portion of the Class B preferred shares was determined by management using a discounted cash flow method. The liability is subsequently recognized on an amortized

cost basis until extinguishment. The remainder of the proceeds are allocated to the conversion option and recognized in shareholders' equity and not subsequently remeasured.

During the year ended December 31, 2020, the Company updated the expected timing and contractual cash outflows relating to the annual dividends payable to the holder and recorded a one-time gain of \$178 (2019: \$nil). Interest expense is calculated by applying the effective interest rate of 8.25% (2019: 8.00%).

(d) Finance costs

	2020	2019
Interest income net of bank charges	\$ (7)	\$ (10)
Interest expense on loan (note 17(a))	1,594	1,428
Accretion expense on loan due to one-time bonus payable to BDC at maturity (note 17(c))	1,056	-
Interest expense on Class B preferred shares (17(c))	562	414
One-time gain on Class B preferred shares -due to change in estimates (note 17(b))	(178)	-
Interest expense on lease liability (note 14(b))	63	13
Total finance costs	<u>\$ 3,090</u>	<u>\$ 1,845</u>

18. Financial instruments and fair values

The Company characterizes fair value measurements using a hierarchy that prioritizes inputs depending on the degree to which they are observable. The three levels of the fair value hierarchy are as follows:

- Level 1: fair value measurements are quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: fair value measurements are those derived from inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3: fair value measurements are those derived from valuation techniques that include significant inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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 are classified as financial assets and liabilities at amortized cost.

The following table shows the carrying amount and the fair values of financial liabilities, including their levels in the fair value hierarchy.

	Carrying value	Fair value measurement Level 2	Fair value measurement Level 3
December 31, 2020			
Financial liabilities			
Class A and Class C preferred shares (note 17(b))	\$ 14,049	\$ -	\$ 14,049
Loan (note 17(a))	21,322	21,457	-
17(c))	4,298	-	4,298
Total	<u>\$ 39,669</u>	<u>\$ 21,457</u>	<u>\$ 18,347</u>
		Fair value measurement Level 2	Fair value measurement Level 3
December 31, 2019			
Financial liabilities			
Class A and Class C preferred shares (note 17(b))	\$ 10,276	\$ -	\$ 10,276
Loan (note 17(a))	23,199	23,400	-
17(c))	3,914	-	3,914
Total	<u>\$ 37,389</u>	<u>\$ 23,400</u>	<u>\$ 14,190</u>

During the year ended December 31, 2020 and 2019 there have been no transfers of amounts between Level 1, Level 2, and Level 3 of the fair value hierarchy.

The classification of the financial instruments as well as their carrying values as at December 31, 2020 and 2019 is shown in the table below.

	Amortized cost (Financial asset)	Amortized cost (Financial liabilities)	FVTPL	Total
December 31, 2020				
Financial assets				
Cash and cash equivalents	\$ 2,308	\$ -	\$ -	\$ 2,308
Accounts and other receivables	1,001	-	-	1,001
Total financial assets	<u>\$ 3,309</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,309</u>
Financial liabilities				
Account payable and accrued liabilities	\$ -	\$ 10,393	\$ -	\$ 10,393
Loan	-	21,322	-	21,322
Class A and Class C preferred shares	-	-	14,049	14,049
Class B preferred shares (dividends payable component)	-	4,298	-	4,298
Total financial liabilities	<u>\$ -</u>	<u>\$ 36,013</u>	<u>\$ 14,049</u>	<u>\$ 50,062</u>
December 31, 2019				
Financial assets				
Cash and cash equivalents	\$ 3,398	\$ -	\$ -	\$ 3,398
Accounts and other receivables	845	-	-	845
Total financial assets	<u>\$ 4,243</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,243</u>
Financial liabilities				
Account payable and accrued liabilities	\$ -	\$ 5,049	\$ -	\$ 5,049
Loan	-	23,199	-	23,199
Class A and Class C preferred shares	-	-	10,276	10,276
Class B preferred shares (dividends payable component)	-	3,914	-	3,914
Total financial liabilities	<u>\$ -</u>	<u>\$ 32,162</u>	<u>\$ 10,276</u>	<u>\$ 42,438</u>

Valuation techniques and significant unobservable inputs

The following tables show the valuation techniques used in measuring Level 3 fair values for financial instruments in the consolidated statements of financial position, and the significant unobservable inputs used.

Valuation technique		Inter-relationship between significant unobservable input and fair value measurement
Financial instruments measured at fair value		
Class A and Class C preferred shares	Discounted cash flows:	The estimated fair value would increase (decrease) if:
	The valuation model considers the present value of expected value of the redemption feature, dividend payable and the conversion right, discounted using a risk-adjusted discount rate with an expected probability of occurrence	- The average risk adjusted discount rate were lower (higher)
		- The probability of redemption decreased (increased) / probability of exercising the conversion right increased (decreased)
Financial instruments not measured at fair value		
Other financial liabilities:	Discounted cash flows:	N/A
- Loan		
- Class B preferred shares: liability component	The valuation model considers the present value of expected payments, discounted using a risk-adjusted discount rate at initial recognition.	

19. Financial risk management objectives and policies

The Company's primary risk management objective is to protect the Company's assets and cash flow, in order to increase the Company's enterprise value. The Company is exposed to capital management risk, market risk, credit risk, and liquidity risk. The Company's senior management and Board of Directors oversee the management of these risks. The Board of Directors reviews and approves policies for managing each of these risks which are summarized below.

(a) Capital management

The Company manages its capital, which consists of equity (Class B preferred and common shares), long-term debt and Class A & C preferred shares, with the objectives of safeguarding sufficient net working capital over the annual operating cycle and providing sufficient financial resources to grow operations to meet long-term consumer demand. The Company prepares and updates its annual operational results based on the Company's short and long term objectives and monitors actual operating results compared to the forecast to ensure that there is sufficient capital on hand to grow its operations. The Board of Directors of the Company monitors the Company's capital management on a regular basis. The Company will continually assess the adequacy of the Company's capital structure and capacity and make adjustments within the context of the Company's strategy, economic conditions, and risk characteristics of the business.

(b) Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market prices comprise interest rate risk and foreign currency risk.

Interest rate risk

The Company is exposed to changes in interest rates on our cash and cash equivalents, loans. The Company's debt has a variable interest rate based on BDC's floating base rate plus a margin. As a result, the Company is

exposed to interest rate risk due to fluctuations in the BDC's floating base rate. The principal amount outstanding under the loan was \$20.4 million (2019: \$23.4 million) as at December 31, 2020 which currently bears interest at 6.5% (2019: 8%). A 1.00% increase in the floating interest rate would have increased annual interest payable by \$169 (2019: \$82) and interest expense by \$104 (2019: \$156).

Currency risk

The Company's and its subsidiary's functional currencies are the Canadian Dollar ("CAD") and the United States Dollar ("USD") respectively. The Company is exposed to fluctuations in the USD and the CAD relative to these functional currencies. The Company has not entered into any agreements or purchased any instruments to hedge possible currency risks at this time. The Company is exposed to the following currency risk:

	2020		2019	
	USD	CAD	USD	CAD
Cash and cash equivalents	\$ 4	\$ 230	\$ 783	\$ 1,232
Accounts and other receivables	-	429	-	147
Accounts payable and accrued liabilities	-	(3,339)	-	(79)
Total	\$ 4	\$ (2,680)	\$ 783	\$ 1,300

A 10% strengthening in the Canadian dollar against the U.S. dollar on net monetary accounts would, with all other variables being constant, have an approximately unfavorable impact of \$244 (2019: \$107) on net income.

(c) Credit risk

Credit risk refers to the possibility that the Company can suffer financial losses due to the failure of the Company's counterparties to meet their payment obligations. The Company is exposed to minimal credit risk. The Company does not extend credit to customers, but do have some receivables exposure with respect to payment processors transferring customer funds to the Company and to rebates receivable from the Company's vendors. In order to reduce this risk, the Company uses industry leading payment processors, including Chase Paymentech, American Express, and PayPal. The Company deposits its cash and cash equivalents with major financial institutions that have been assigned high credit ratings by internationally recognized credit rating agencies. As such, exposure to customer credit risk is not material.

(d) Liquidity risk

Liquidity risk is the risk that we cannot meet a demand for cash or fund our obligations as they come due. The Company manage liquidity risk by continuously monitoring actual and projected cash flows, taking into account the seasonality of the Company's revenue, income and working capital needs. The following table summarizes the amount of contractual undiscounted future cash flow requirements as at December 31, 2020 and 2019:

December 31, 2020

Contractual obligations	Carrying amount	Contractual cash flows	Less than 1 year	1-3 years	4-5 years	After 5 years
Accounts payable and accrued liabilities	\$ 10,393	\$ 9,616	\$ 9,616	\$ -	\$ -	\$ -
Loan - Principal amount	21,322	21,886	3,000	6,000	6,000	6,886
Loan - Interest	-	4,318	1,236	1,888	1,110	84
	<u>\$ 31,715</u>	<u>\$ 35,820</u>	<u>\$ 13,852</u>	<u>\$ 7,888</u>	<u>\$ 7,110</u>	<u>\$ 6,970</u>

December 31, 2019

Contractual obligations	Carrying amount	Contractual cash flows	Less than 1 year	1-3 years	4-5 years	After 5 years
Accounts payable and accrued liabilities	\$ 5,049	\$ 4,860	\$ 4,860	\$ -	\$ -	\$ -
Loan - Principal amount	23,199	23,400	2,500	9,000	6,000	5,900
Loan - Interest	-	7,320	1,797	2,884	1,926	713
	<u>\$ 28,248</u>	<u>\$ 35,580</u>	<u>\$ 9,157</u>	<u>\$ 11,884</u>	<u>\$ 7,926</u>	<u>\$ 6,613</u>

20. Share capital

(a) Authorized

- Unlimited Class A preferred shares, redeemable and retractable at \$1,000 per share, non-voting with cumulative dividend at 8%
- Unlimited Class B preferred shares, non-redeemable, non-retractable, each convertible into 857 ¹/₇ common shares and entitled to 857 ¹/₇ votes, cumulative dividend at 8%
- Unlimited Class C preferred shares, redeemable and retractable at \$1,000 per share, non-voting with cumulative dividend at 8%
- Unlimited common shares, each entitled to 1 vote

(b) Issued and outstanding preferred shares and common shares

During the year ended December 31, 2019, the Company issued 7,000 Class B preferred shares for \$7,000 of cash consideration. Refer to note 17(b) for the accounting of Class A and C preferred shares and note 17(c) for Class B preferred shares. There were no share issuances during the year ended December 31, 2020.

On December 14, 2020, the Company completed a Share Split. (See note 2).

21. Share-based compensation

(a) Stock options

In 2019, the Company established its stock option plan (the "Legacy Plan") to encourage ownership of the Company's common shares by its officers, directors, employees and certain non-employees. Under the Legacy Plan, the Company can grant options for up to 10% of fully diluted common shares. Stock options have a maximum term of up to seven years. The options vesting period ranges between three months and three years.

In 2020, the Company adopted a new stock option plan (the "Plan"), where options granted under the Legacy Plan will be subject to the terms of the Plan. Under the Plan, the Plan is considered to be an "evergreen" plan and the maximum number of Common Shares reserved for issuance, in the aggregate, under our Stock Option Plan and all other security-based compensation arrangements will be 10% of the aggregate number of Common Shares issued and outstanding from time to time, and the number of Common Shares reserved for issuance pursuant to options granted to any one individual, within a one year period, shall not exceed 5% of the aggregate number of Common Shares issued and outstanding. Stock options have a maximum term of up to ten years and the vesting period for each grant is established by the Company's Board.

The Company had granted the following options under the Legacy Plan. There were no changes to the terms of the options granted under the Legacy plan and these options are now subject to the terms of the Plan.

	Number	Weighted average exercise price
Balance: 31 December 2018	-	\$ -
Granted: October 1, 2019	2,040,867	\$ 2.61
Balance: December 31, 2019	2,040,867	\$ 2.61
Granted: July 30, 2020	195,194	\$ 5.68
Balance: December 31, 2020	2,236,061	\$ 2.88

During the year ended December 31, 2020, the board of directors approved an option grant by the Company of 195,194 options and expire seven years after initial grant date, subject to a vesting schedule and the terms of the Company's option plan. These options have a weighted average exercise price of \$5.68, a term of 7 years and generally vest over 3 years. Of the options granted on October 1, 2019, 1,955,000 options vest over a 2.5 year period from the date of grant and remaining 85,867 options vest one year from the date of grant.

The total share-based payment expense recorded during the year ended December 31, 2020 from the vesting of these options was \$811 (2019: \$130), of which \$743 (2019: \$130) was classified as general and administration expense, \$12 (2019: \$nil) as fulfillment expenses and \$56 (2019: \$nil) as marketing expenses within the consolidated financial statements.

The following table summarizes information about the share options as at December 31, 2020 and 2019:

December 31, 2020

Exercise price per share of options outstanding	Number of options outstanding	Weighted average remaining life (years)	Weighted average exercise price options exercisable	Number of options exercisable	Expiry date
\$ 2.61	2,040,867	5.75	\$ 2.46	736,882	September 30, 2026
\$ 5.22	125,734	6.58	\$ 0.23	33,734	July 29, 2027
\$ 6.52	69,460	6.58	\$ 0.10	11,960	July 29, 2027
	<u>2,236,061</u>	<u>5.82</u>	<u>\$ 2.78</u>	<u>782,576</u>	

December 31, 2019

Exercise price per share of options outstanding	Number of options outstanding	Weighted average remaining life (years)	Weighted average exercise price options exercisable	Number of options exercisable	Expiry date
\$ 2.61	2,040,867	6.75	\$ -	-	September 30, 2026
	<u>2,040,867</u>	<u>6.75</u>	<u>\$ -</u>	<u>-</u>	

The Black-Scholes option pricing model was used to estimate the fair value of the share options using the following assumptions on the grant date of the options:

Issue date	Expected Option life (years)	Risk free interest rate	Dividend yield	Forfeiture rate	Expected volatility	Weighted average fair value
October 1, 2019	7.00	1.46%	0%	0%	100%	\$ 0.25
July 30, 2020	7.00	0.39%	0%	0%	100%	\$ 4.22

(b) Restricted shares rights ("RSR")

In 2020, the Company adopted its long-term incentive plan ("LTIP") where the RSRs may be granted to employees, officers, directors, management company employees and consultants of the Company as a discretionary payment in consideration of current performance and expected future performance. The purpose of the LTIP is to advance the interests of the Company through the motivation, attraction, and retention of key persons and to secure for the Company and the shareholders the benefits inherent with the

retention of such persons. Each RSR entitles the holder to receive one fully paid Common Share without payment of additional consideration upon vesting of the RSR.

Pursuant to the terms of the LTIP, the aggregate maximum number of Common Shares reserved for issuance under the LTIP and all other security-based compensation arrangements shall be 10% of the aggregate number of Shares issued and outstanding from time to time, and the number of Common Shares reserved for issuance pursuant to RSRs granted to any one individual, within a one year period, shall not exceed 5% of the aggregate number of Common Shares outstanding from time to time on a fully diluted basis. Each RSR entitles the holder to receive one fully paid Common Share without payment of additional consideration on the later of: (i) the end of a restricted period of time wherein a RSR cannot be exercised as determined by the Board (the "Restricted Period"); and (ii) a date determined by an eligible participant or Compensation Committee that is after the Restricted Period and before a participant's retirement date or termination date (a "Deferred Payment Date"). A participant's entitlement to receive the Common Shares may not, however, be deferred by a participant to a date which is later than December 31st of the third calendar year following the date of grant of the RSRs to the participant, or such later date as may be expressly permitted by the Company and applicable income tax laws.

For the year ended December 31, 2020, the Company granted 35,979 RSRs to its officers and directors. As at December 31, 2020, 12,451 RSRs were vested as at December 31, 2020 and the remaining 23,258 RSRs vest equally over three years. Share-based payment expense recorded during the year ended December 31, 2020 from the vesting of these RSRs was \$131 (2019: \$nil) and was classified as general and administration expense within the consolidated financial statements.

22. Related party transactions

The majority of the holders of the Class A, B and C Preferred Shares are the directors and certain key management of the Company; and their families and related entities. After the year end, these Preferred Shares were converted to common shares and are no longer outstanding (Note 26).

During the year ended December 31, 2020, the Company paid rent of \$77 (2019: \$32) to a company owned by a major shareholder of the Company and paid rent of \$120 (2019: \$90) to a company under common control of a major shareholder of the Company. 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 and amounts are payable on a monthly basis for the duration of the contract. During the year ended December 31, 2020, the Company purchased inventory of \$56 (2019: \$nil) from a company owned by the minority shareholders of the Company. These amounts had been included in cost of sales and are based on market/third party invoiced rates for the inventory purchased. During the year ended December 31, 2020, the Company recorded \$7 (2019: \$ nil) of Board fees to the directors, all of which is unpaid as at December 31, 2020.

Key management compensation

Key management consists of the Board of Directors, the Chief Executive Officer, and the executives who report directly to the Chief Executive Officer. As at December 31, 2020, the Company recorded a bonus payable of \$50 (2019: \$ nil) to key management. Key management compensation comprises of wages and short-term employee benefits. For the year ended December 31, 2020, the Company paid \$804 (2019: 508) of wages and short-term employee benefits to key management and recorded \$555 (2019: 125) of key management share based compensation.

23. Supplemental cash flow

For the year ended December 31, 2020, the Company paid interest of \$1,527 (2019: \$1,395). There were no non-cash investing and financing activities for the year ended December 31, 2020. For the year ended December 31, 2019, non-cash investing and financing activities consist of issuing common shares and Class A

preferred shares as consideration for business combination of \$13,824 (Note 6) and issuing Class C preferred shares as consideration for asset acquisition of \$300 (Note 7).

24. Earnings per share

Weighted average number of ordinary shares used as the denominator in calculating basic and diluted earnings per share is 9,200,000 (2019: 7,065,753).

Common share equivalents that could potentially dilute net income per basic share in the future, but were not included in the computation of diluted earnings per share because the impact would have been anti-dilutive comprised of all issued stock options (note 21) and all preferred shares of the Company (note 20(b)).

25. Contingencies

The Company is, from time to time, involved in various claims, legal proceedings and complaints arising in the ordinary course of business. It does not believe that adverse decisions in any pending or threatened proceedings, or any amount it may be required to pay by reason thereof, will have a material adverse effect on the financial condition or future results of operations of the Company.

26. Subsequent events

Conversion of preferred shares and issuance of promissory note

On January 18, 2021, the Company issued 15,314,709 common shares in connection with the conversion of all the Company's Class A, B and C preferred shares and a promissory note of \$2,412 which are the accrued dividends payable to the holders of the preferred shares. The note matures on the earlier of January 31, 2026 or the date after the Company's current loan from BDC Capital has been repaid in full (the "Maturity Date"). Unpaid principal shall be payable in quarterly installments beginning on March 31, 2021 of \$121, subject to the consent of BDC Capital. Any unpaid principal shall be payable in full upon the Maturity Date.

Completion of initial public offering

On January 19, 2021, the Company is completed its oversubscribed and upsized initial public offering (the "IPO") and listing on the Toronto Stock Exchange ("TSX"). The IPO consisted of the issuance of 6,470,588 common shares of the Company (the "Shares") at a price of \$8.50 per Share (the "Offering Price") for gross proceeds of \$55,000. In connection with the completion of the IPO, the Company issued 14,706 common shares and paid \$125 in cash to Agents of the listing. In addition, the agents exercised 50% of their overallotment option in a transaction that closed on February 5, 2021.

Additional BDC principal payments

The Company made a prepayment of \$4,500 in January 2021 towards the BDC loan principal. The repayment schedule of the loan was revised accordingly to reflect this prepayment made where the balloon payment was reduced by the prepayment amount. On March 5, 2021, BDC notified the Company that the Company is not subject to certain financial ratio requirements that the Company failed to meet as at December 31, 2020. The loan is in good standing and the indebtedness is no longer considered a current liability.

Lease agreements

The Company entered into two separate lease agreements to lease a retail store space and a warehouse facility in Vancouver, British Columbia. The new retail store lease commences on January 1, 2021 and includes escalating rent payments and an initial five-year term. The warehouse facility lease commences on or about July 1, 2021 and includes escalating rent payments and an initial seven year term.