

KITS EYECARE LTD.

Consolidated Annual Financial Statements

For the years ended December 31, 2022 and 2021

(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, 2022 and December 31, 2021, and the consolidated statements of 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, 2022 and December 31, 2021, 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 13 to the consolidated financial statements. The Company has recorded goodwill and indefinite life intangible assets of \$38,769,000 and \$1,130,000 respectively as of December 31, 2022. 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, 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 amount for the CGU 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 actual results and comparing the year-to-date actual results to budget to assess the Company's budgeting process.
- Prepared an independent point estimate to recalculate the recoverable amount of the CGU using independently recalculated future cash flows based on expected operating results, growth rates and discount rate.
- Evaluated the reasonableness of key assumptions in the impairment model, including future cash flows based on expected operating results, 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:
 - o Evaluating the reasonableness of the discount rates by comparing the Company's weighted average cost of capital against publicly available market data; and
 - o 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 audits 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 Brent Wolfe.

Vancouver, British Columbia

March 9, 2023

MNP LLP

Chartered Professional Accountants

KITS EYECARE LTD.**CONSOLIDATED STATEMENTS OF LOSS****For the years ended December 31, 2022 and 2021**

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

	Year ended December 31,	
	2022	2021
Revenue (Note 6)	\$ 91,639	\$ 82,403
Cost of sales	62,392	61,512
Gross profit	29,247	20,891
Fulfillment (Note 7)	12,582	11,467
Marketing (Note 7)	12,959	15,522
General and administrative (Note 7)	8,104	9,283
Exchange (gain)/loss	(2,344)	(713)
Depreciation and amortization (Note 11,12,13)	2,298	2,377
Operating income (loss)	(4,352)	(17,045)
Finance costs - net (Note 15(d))	1,524	1,798
Income (Loss) before income taxes	\$ (5,876)	\$ (18,843)
Income taxes (Note 8)	(1,324)	(4,226)
Net income (loss) for the year	<u>\$ (4,552)</u>	<u>\$ (14,617)</u>
Income (Loss) per share (Note 22)		
Basic	<u>\$ (0.15)</u>	<u>\$ (0.49)</u>
Diluted	<u>\$ (0.15)</u>	<u>\$ (0.49)</u>

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, 2022 and 2021**

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

	Year	
	ended December 31,	
	2022	2021
Net income (loss) for the year	\$ (4,552)	\$ (14,617)
Other comprehensive income for the year:		
Items that may be reclassified to profit or loss		
Currency translation differences	2,157	(289)
Total comprehensive income (loss) for the year	<u>\$ (2,395)</u>	<u>\$ (14,906)</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)

	December 31, 2022	December 31, 2021
Assets		
Current assets		
Cash and cash equivalents	\$ 18,790	\$ 20,505
Accounts and other receivables (Note 9)	897	440
Inventory (Note 10)	16,414	13,485
Tax receivable (Note 8)	20	421
Prepays, deposits and other assets	877	860
Total current assets	36,998	35,711
Property and equipment (Note 11)	2,828	3,423
Right-of-use asset (Note 12(a))	7,209	7,511
Deferred tax asset (Note 8)	5,122	3,552
Intangible assets (Note 13)	2,939	4,456
Goodwill (Note 13)	38,769	36,291
Total assets	<u>\$ 93,865</u>	<u>\$ 90,944</u>
Liabilities and shareholders' equity		
Current liabilities		
Accounts payable and accrued liabilities (Note 14)	\$ 16,809	\$ 10,298
Tax payable	422	395
Deferred revenue (Note 6)	3,487	2,526
Loan (Note 15(a))	3,099	3,051
Lease liability (Note 12(b))	623	552
Total current liabilities	24,440	16,822
Loan (Note 15(a))	8,158	11,291
Promissory note (Note 15(c))	1,884	1,744
Lease liability (Note 12(b))	5,674	6,302
Total liabilities	40,156	36,159
Shareholders' equity		
Share capital (Note 18)	76,985	76,592
Contributed surplus (Note 19)	2,863	1,937
Retained deficit	(25,699)	(21,147)
Accumulated other comprehensive loss	(440)	(2,597)
Total shareholders' equity	53,709	54,785
Total liabilities and shareholders' equity	<u>\$ 93,865</u>	<u>\$ 90,944</u>

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

Contingencies – Note 23

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, 2022 and 2021
(in thousands of Canadian Dollars, except share and per share data)

	Share Capital				Contributed surplus	Retained earnings (deficit)	Accumulated other comprehensive	Total
	Common shares		Class B preferred shares					
	Shares	Amount	Shares	Amount				
Balance at December 31, 2020	9,200,000	\$ 3,824	7,000	\$ 3,500	\$ 941	\$ (6,530)	\$ (2,308)	\$ (573)
Conversion of Class A, B and C preferred shares into common shares (Note 15(b))	15,314,709	19,875	(7,000)	(3,500)	-	-	-	16,375
Shares issued in connection with initial public offering (Note 18(b))	6,485,294	55,125	-	-	-	-	-	55,125
Shares issuance costs	-	(4,252)	-	-	-	-	-	(4,252)
Deferred income tax on share issuance costs (Note 8)	-	1,148	-	-	-	-	-	1,148
Share-based payments (Note 19)	-	-	-	-	1,516	-	-	1,516
Shares issued for options exercised	93,916	312	-	-	-	-	-	312
Option exercise	-	91	-	-	(91)	-	-	-
RSR exercise	62,461	469	-	-	(429)	-	-	40
Net loss and comprehensive loss	-	-	-	-	-	(14,617)	(289)	(14,906)
Balance as at December 31, 2021	31,156,380	\$ 76,592	-	\$ -	\$ 1,937	\$ (21,147)	\$ (2,597)	\$ 54,785
Balance as at December 31, 2021	31,156,380	\$ 76,592	-	\$ -	\$ 1,937	\$ (21,147)	\$ (2,597)	\$ 54,785
Share-based payments (Note 19)	-	-	-	-	1,319	-	-	1,319
RSR exercise	160,072	393	-	-	(393)	-	-	-
Net loss and comprehensive loss	-	-	-	-	-	(4,552)	2,157	(2,395)
Balance as at December 31, 2022	31,316,452	\$ 76,985	-	\$ -	\$ 2,863	\$ (25,699)	\$ (440)	\$ 53,709

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, 2022 and 2021**

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

	Year	
	ended December 31,	
	2022	2021
Operating activities		
Net Income (Loss)	\$ (4,552)	\$ (14,617)
Items not affecting cash:		
Share-based payments (Note 19)	1,319	1,516
Depreciation of property and equipment and right-of-use assets (Note 11, 12)	1,831	1,043
Amortization of intangible assets (Note 13)	1,693	1,630
Finance costs (Note 15)	1,631	1,865
Income taxes	(1,324)	(4,226)
Unrealized foreign exchange (gain)	(391)	(130)
Other expense	-	81
Changes in non-cash operating working capital:		
Accounts receivable	(457)	669
Inventory	(2,929)	(7,680)
Prepaid expenses and other assets	(17)	53
Accounts payable and accrued liabilities	6,511	(94)
Deferred revenue	961	278
Income tax refund received	401	151
Cash provided by / (used in) by operating activities	4,677	(19,461)
Financing activities		
Repayment of lease obligation (Note 12)	(1,048)	(1,071)
Repayment of loan (Note 15(a))	(4,080)	(8,810)
Proceeds from issuance of share capital (Note 18)	-	55,000
Transaction costs of share issuance	-	(3,953)
Proceeds from exercise of stock options	-	312
Cash provided by / (used in) financing activities	(5,128)	41,478
Investing activities		
Purchase of property and equipment (Note 11)	(258)	(3,633)
Cash used in investing activities	(258)	(3,633)
Increase / (decrease) in cash and cash equivalents	(709)	18,384
Foreign exchange effect on cash and cash equivalents	(1,006)	(187)
Cash and cash equivalents, beginning of year	20,505	2,308
Cash and cash equivalents, end of year	\$ 18,790	\$ 20,505

Supplementary cash flow information - Note 21

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, 2022 and 2021**

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

1. Nature of operations

Kits Eyecare Ltd. (the "Company" or "KITS") is a vertically integrated, digitally native eyecare platform, 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, 2022.

The consolidated financial statements have been prepared on a going concern basis, under the historical cost convention except for financial instruments and share-based payments that are measured at fair value at initial recognition. There are no IFRSs or IFRS Interpretations Committee interpretations that are not yet effective that would be expected to have a material impact on the Company's consolidated financial statements.

These annual consolidated financial statements were approved by and authorized for issuance by the Company's Board of Directors on March 8, 2023.

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. There were no new accounting standards adopted 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 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 loss.

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 loss 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 loss in the cumulative translation account and reclassified from equity to the consolidated statements of loss 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) Earnings per share

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

Diluted earnings per share represents the loss 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.

(f) 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.

(g) Accounts receivable

Accounts receivable 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 accounts receivable and the Company applies the IFRS 9 simplified model of recognizing lifetime expected credit losses for all trade receivables as these items do not have a significant financing component.

(h) 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.

(i) Property and equipment

Property and equipment are recorded at cost, less accumulated depreciation. Cost 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, computer equipment and equipment	20% to 30% declining-balance
Furniture and fixtures	20% declining-balance
Store and warehouse leasehold improvements	Straight-line over the life of lease

(j) 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 loss on a straight-line basis over the lease term.

(k) 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 loss.

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.

(l) 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.

(m) Impairment of long-lived assets

The carrying amount of the Company's non-financial 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 loss.

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.

(n) 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 loss.

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.

(o) 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.

(p) 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.

(q) 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 statements 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.

(r) 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 loss. 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 loss 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 loss 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 loss and consolidated statements of comprehensive loss. However, gains and losses on derecognition of financial assets classified as FVTOCI remain within accumulated other comprehensive 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 loss.

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 consolidated 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 for the current year.

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 and 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.

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: forfeiture rate; expected time to exercise in years; expected dividend yield, and volatility.

Income and other taxes

Key Sources of Estimation: In determining the recoverable amount of deferred tax assets, the Company forecasts future taxable income by legal entity and the period in which the income occurs to ensure that sufficient taxable income exists to utilize the attributes. Inputs to those projections are management's financial forecasts and statutory tax rates.

COVID-19 pandemic

Over the last two years in North America, market and economic conditions have been challenging, particularly with the COVID-19 pandemic which altered consumer spending patterns and economic prospects shifted in

the overall e-commerce industry. Further, the eyecare market broadly faced pressures from inflation, foreign exchange rate fluctuations, supply chain disruptions, and labor challenges. The future impacts of COVID-19 and other potential COVID-19 related factors could lead to continued changes in revenue and/or profitability that the Company cannot predict.

Global market conditions may also have affected market confidence and consumer spending patterns. 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 or the recoverable amount of its long-lived assets that will have a significant impact on the Company's financial performance or position.

5. Change in accounting policies

The Company has not adopted any new accounting policies in the current year. The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Company's consolidated 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 International Accounting Standards Board issued Classification of Liabilities as Current or Non-current, which amended IAS 1 Presentation of Financial statements. The amendments clarified how an entity classifies debt and other financial liabilities as current or non-current in particular circumstances. The amendments are effective for annual reporting periods beginning on or after January 1, 2023, with earlier application permitted. 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.

IAS 12 Income Taxes (Amendment)

In May 2021, the International Accounting Standards Board issued Deferred Tax related to Assets and Liabilities arising from a Single Transaction, which amended IAS 12 Income Taxes. The amendments require companies to recognize deferred tax on particular transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences. The amendments are effective for annual reporting periods beginning on or after January 1, 2023. The amendments are not expected to have a material impact on the Company.

6. Segment information and deferred revenue

The operating segment is reported in a manner consistent with the internal reporting provided to the key management team that comprises the Chief Executive Officer ("CEO"), the Chief Financial Officer ("CFO") and the Chief Operating Officer ("COO"). The key management team fulfills the role of the chief operating decision-maker. The key management team is responsible for allocating resources and assessing the performance of the Company's operating segments. The Company manages its business under 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. In 2022, the US/CDN exchange rate appreciated by 3.8% (2021: depreciated by 6.5%).

	2022	2021
United States	\$ 63,601	\$ 59,812
Canada and other	28,038	22,591
Total	<u>\$ 91,639</u>	<u>\$ 82,403</u>

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

Deferred revenue

Deferred revenue consists of credit vouchers of \$938 (2021: \$522), unfulfilled orders of \$2,017 (2021: \$1,802) and allowance of estimated returns of \$532 (2021: \$202). 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.

Revenue by product

	2022	2021
Contact Lenses	\$ 80,094	\$ 74,445
Glasses	11,545	7,958
Total	<u>\$ 91,639</u>	<u>\$ 82,403</u>

7. 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, 2022, the Company incurred \$6,538 (2021: \$6,484) of shipping expenses, \$2,962 (2021: \$2,496) of wages, salaries and benefits, payment processing fees of \$2,330 (2021: \$1,967) and other expenses of \$752 (2021: \$520).

Marketing

Marketing costs include advertising and payroll and related expenses for personnel engaged in marketing and selling activities. During the year ended December 31, 2022, marketing expense comprises of \$12,058 (2021: \$14,539) of advertising and promotion, \$813 (2021: \$800) of wages, salaries and benefits, \$63 of KITS storefront costs (2021: \$135) and \$25 (2021: \$48) 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, 2022, general and administrative expenses consist of wages, salaries and benefits of \$4,398 (2021: \$3,394), rental expenses of \$190 (2021: \$203), share-based payment of \$1,202 (2021: \$1,405), one-time fees relating to the Company's initial public offering of \$nil (2021: \$1,604), technology expense of \$681 (2021: \$817), professional and corporate regulatory fees of \$997 (2021: \$1,316) and other expense of \$636 (2021: \$544).

8. Income taxes**Income tax expense**

For the year ended December 31, 2022, the Company recorded an income tax recovery of \$1,324 (2021: \$4,226) which is comprised of current income tax expense of \$30 (2021 income tax recovery: \$519) and a deferred tax recovery of \$1,354 (2021: \$3,707). Included in the current income tax recovery is a current tax expense of \$nil (2021: \$nil) offset by a current tax expense of prior periods of \$30 (2021 income tax recovery: \$519).

Reconciliation of effective tax rate

	2022	2021
Net (loss)/income before income taxes	\$ (5,876)	\$ (18,843)
Combined Canadian statutory income tax rate	27%	27%
Income tax recovery computed at statutory income tax rate	(1,587)	(5,088)
Tax effect of:		
Non-deductible expenses	395	780
Non-taxable portion of capital gain	(156)	-
Effect of foreign exchange on income taxes	-	(8)
Adjustments for current tax of prior periods	24	90
Income tax recovery	\$ (1,324)	\$ (4,226)

Deferred income tax assets and liabilities

Deferred tax asset on the consolidated statements of financial position is \$5,122 (2021: \$3,552). The following temporary differences and tax losses give rise to deferred income tax assets and liabilities as at:

	2022	2021
Property, plant and equipment, right of use assets and net of lease liability	\$ (823)	\$ (857)
Promissory note	(142)	(180)
Intangible assets	(565)	(972)
Foreign exchange	(195)	-
Non-capital loss and other tax deductions	6,847	5,561
Net deferred income tax asset	\$ 5,122	\$ 3,552

The change for the year in the Company's net deferred tax position was as follows:

	2022	2021
Opening deferred income tax asset (liability)	\$ 3,552	\$ (1,303)
Deferred tax recovery	1,354	3,707
Deferred tax charged against equity	216	1,148
Ending deferred income tax asset	\$ 5,122	\$ 3,552

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

9. Accounts and other receivables

Accounts receivables consist of credit card receivables and rebates from suppliers of \$850 (2021: \$440) and GST receivable of \$47 (2021: \$nil).

10. Inventory

As at December 31, 2022, the inventory mainly comprised of \$9,094 (2021: \$6,045) of contact lenses, \$5,909 (2021: \$6,068) of frames, prescription lenses of \$868 (2021: \$689) and other miscellaneous inventory of \$543 (2021: \$683). For the year ended December 31, 2022, the total amount of inventory recognized as a cost of sales was \$58,545 (2021: \$59,931) and no provision of inventory obsolescence was recognized (2021: \$nil).

11. Property and equipment

	Office computer equipment	Equipment	Furniture and fixtures	Warehouse Improvements	Capital work-in- progress	Store leasehold improvements	Total
Year ended December 31, 2022							
Opening net book value	\$ 143	\$ 2,473	\$ 39	\$ 40	\$ -	\$ 728	\$ 3,423
Additions	76	148	12	3	-	19	258
Depreciation	(47)	(783)	(8)	(4)	-	(210)	(1,052)
Exchange differences	10	143	1	2	-	43	199
Net Book value at December 31, 2022	<u>\$ 182</u>	<u>\$ 1,981</u>	<u>\$ 44</u>	<u>\$ 41</u>	<u>\$ -</u>	<u>\$ 580</u>	<u>\$ 2,828</u>
At December 31, 2022							
Cost	\$ 298	\$ 3,408	\$ 101	\$ 51	\$ -	\$ 874	\$ 4,732
Accumulated depreciation	(116)	(1,427)	(57)	(10)	-	(294)	(1,904)
Net book value	<u>\$ 182</u>	<u>\$ 1,981</u>	<u>\$ 44</u>	<u>\$ 41</u>	<u>\$ -</u>	<u>\$ 580</u>	<u>\$ 2,828</u>
Year ended December 31, 2021							
Opening net book value	\$ 40	\$ 275	\$ 35	\$ 36	\$ 5	\$ -	\$ 391
Additions	123	2,674	12	45	(5)	791	3,640
Disposals	-	(38)	-	(26)	-	-	(64)
Depreciation	(22)	(461)	(8)	(15)	-	(70)	(576)
Exchange differences	2	23	-	-	-	7	32
Net Book value at December 31, 2021	<u>\$ 143</u>	<u>\$ 2,473</u>	<u>\$ 39</u>	<u>\$ 40</u>	<u>\$ -</u>	<u>\$ 728</u>	<u>\$ 3,423</u>
At December 31, 2021							
Cost	\$ 206	\$ 3,045	\$ 83	\$ 45	\$ -	\$ 800	\$ 4,179
Accumulated depreciation	(63)	(572)	(44)	(5)	-	(72)	(756)
Net book value	<u>\$ 143</u>	<u>\$ 2,473</u>	<u>\$ 39</u>	<u>\$ 40</u>	<u>\$ -</u>	<u>\$ 728</u>	<u>\$ 3,423</u>

For the year ended December 31, 2022, \$762 (2021: \$193) of depreciation was categorized as cost of goods sold.

12. Leases

The Company leases equipment, a warehouse and store building.

(a) Right-of-use assets

	Equipment	Warehouse building	Store building	Total
Year ended December 31, 2022				
Opening net book value	\$ 2,168	\$ 5,004	\$ 339	\$ 7,511
Additions	23	-	-	23
Depreciation	(248)	(444)	(87)	(779)
Exchange differences	110	324	20	454
Net Book value at December 31, 2022	<u>\$ 2,053</u>	<u>\$ 4,884</u>	<u>\$ 272</u>	<u>\$ 7,209</u>
At December 31, 2022				
Cost	\$ 2,551	\$ 5,576	\$ 453	\$ 8,580
Accumulated depreciation	(498)	(692)	(181)	(1,371)
Net book value	<u>\$ 2,053</u>	<u>\$ 4,884</u>	<u>\$ 272</u>	<u>\$ 7,209</u>

	Equipment	Warehouse building	Store building	Total
Year ended December 31, 2021				
Opening net book value	\$ 1,071	\$ 105	\$ -	\$ 1,176
Additions	1,208	5,103	426	6,737
Lease modification	-	(67)	-	(67)
Depreciation	(135)	(248)	(84)	(467)
Exchange differences	24	111	(3)	132
Net Book value at December 31, 2021	<u>\$ 2,168</u>	<u>\$ 5,004</u>	<u>\$ 339</u>	<u>\$ 7,511</u>
At December 31, 2021				
Cost	\$ 2,394	\$ 5,220	\$ 424	\$ 8,038
Accumulated depreciation	(226)	(216)	(85)	(527)
Net book value	<u>\$ 2,168</u>	<u>\$ 5,004</u>	<u>\$ 339</u>	<u>\$ 7,511</u>

For the year ended December 31, 2022, \$464 (2021: \$102) of depreciation was categorized as cost of goods sold.

(b) Lease liabilities

The following table presents the changes in the Company's lease liabilities:

	Equipment	Warehouse building	Store building	Total
Year ended December 31, 2022				
Opening balance	\$ 1,486	\$ 5,066	\$ 302	\$ 6,854
Commencement of new leases	23	-	-	23
Payments	(365)	(602)	(81)	(1,048)
Interest expense (note 15 (d))	98	377	21	496
Exchange differences	(66)	(319)	(17)	(402)
Impact of translation	38	319	17	374
As at December 31, 2022	<u>\$ 1,214</u>	<u>\$ 4,841</u>	<u>\$ 242</u>	<u>\$ 6,297</u>
At December 31, 2022				
Current	\$ 288	\$ 260	\$ 75	\$ 623
Non-current	926	4,581	167	5,674
Total lease liabilities	<u>\$ 1,214</u>	<u>\$ 4,841</u>	<u>\$ 242</u>	<u>\$ 6,297</u>

	Equipment	Warehouse building	Store building	Total
Year ended December 31, 2021				
Opening balance	\$ 894	\$ 116	\$ -	\$ 1,010
Commencement of new leases	1,208	5,103	426	6,737
Payments	(694)	(233)	(144)	(1,071)
Interest expense (note 15 (d))	75	165	22	262
Lease modification	-	(81)	-	(81)
Exchange differences	(15)	(112)	1	(126)
Impact of translation	18	108	(3)	123
As at December 31, 2021	<u>\$ 1,486</u>	<u>\$ 5,066</u>	<u>\$ 302</u>	<u>\$ 6,854</u>
At December 31, 2021				
Current	\$ 268	\$ 225	\$ 59	\$ 552
Non-current	1,218	4,841	243	6,302
Total lease liabilities	<u>\$ 1,486</u>	<u>\$ 5,066</u>	<u>\$ 302</u>	<u>\$ 6,854</u>

For leases that do not use the implicit interest rate, the Company's incremental borrowing rate applied to these lease liabilities recognized in the consolidated statements of financial position was 8%. (2021: 8%)

Short-term leases are not included in the calculation of lease liabilities. For the year ended December 31, 2022, \$190 (2021: \$203) 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:

	2022	2021
Less than 1 year	\$ 1,076	\$ 1,049
Between 1 and 5 years	3,847	4,124
More than 5 years	3,866	4,670
Total undiscounted lease payments	8,789	9,843
Less imputed interest	(2,492)	(2,989)
Total	\$ 6,297	\$ 6,854

The Company reasonably expects to exercise a five-year lease extension option for the Company's warehouse building where the amount estimated is based on the lease payment in the year prior to extension.

Lease contracts related to leased premises contain extension options. The Company includes lease liabilities related to extension options when the Company has assessed that it is reasonably certain that these extension options will be exercised. The Company will reassess the likelihood of exercising the options if there is a significant event or change in circumstances. As at December 31, 2022, potential future cash outflows of \$1,035 (undiscounted) have not been included in the store building lease liability because it is not reasonably certain that the lease will be extended (2021 – \$1,035).

13. Intangible assets and goodwill

	Goodwill	Domain names	Proprietary Software	Customer relationship	Total
Year ended December 31, 2022					
Opening net book value	\$ 36,291	\$ 1,114	\$ 485	\$ 2,857	\$ 40,747
Amortization	-	-	(395)	(1,298)	(1,693)
Exchange differences	2,478	16	17	143	2,654
Net Book value at December 31, 2022	<u>\$ 38,769</u>	<u>\$ 1,130</u>	<u>\$ 107</u>	<u>\$ 1,702</u>	<u>\$ 41,708</u>
At December 31, 2022					
Cost	\$ 38,769	\$ 1,130	\$ 1,643	\$ 6,753	\$ 48,295
Accumulated amortization	-	-	(1,536)	(5,051)	(6,587)
Net book value	<u>\$ 38,769</u>	<u>\$ 1,130</u>	<u>\$ 107</u>	<u>\$ 1,702</u>	<u>\$ 41,708</u>
	Goodwill	Domain names	Proprietary Software	Customer relationship	Total
Year ended December 31, 2021					
Opening net book value	\$ 36,445	\$ 1,115	\$ 873	\$ 4,139	\$ 42,572
Amortization	-	-	(380)	(1,250)	(1,630)
Exchange differences	(154)	(1)	(8)	(32)	(195)
Net Book value at December 31, 2021	<u>\$ 36,291</u>	<u>\$ 1,114</u>	<u>\$ 485</u>	<u>\$ 2,857</u>	<u>\$ 40,747</u>
At December 31, 2021					
Cost	\$ 36,291	\$ 1,114	\$ 1,538	\$ 6,321	\$ 45,264
Accumulated amortization	-	-	(1,053)	(3,464)	(4,517)
Net book value	<u>\$ 36,291</u>	<u>\$ 1,114</u>	<u>\$ 485</u>	<u>\$ 2,857</u>	<u>\$ 40,747</u>

An annual impairment test of goodwill and indefinite life intangible assets was performed on December 31, 2022 and December 31, 2021 and did not result in any goodwill and intangible assets impairment losses.

The Company only has one CGU and the recoverable amount of the CGU was based on its value in use, calculated using discounted cash flows over five 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 five-year period (Level 3 of the fair value hierarchy), a mid-term cash flow growth rate of 8-10% (2021: 10%) and a terminal growth rate of 2% (2021: 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 17.2% (2021: 15.0%) applied to the cash flow projections. The pre-tax discount rate is based on a risk-free rate, an equity risk premium, 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 five 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 funded from the proceeds from the Company's IPO in January 2021 and operating cash flows.

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 or a 10% decrease in EBITDA would not have resulted in impairment.

These assumptions are subjective judgments 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.

14. Accounts payable and accrued liabilities

As at December 31, 2022, the Company has recorded accounts payable of \$14,465 (2021: \$8,363) and accrued liabilities and other payables of \$2,344 (2021: \$1,935).

15. Financial liabilities

(a) Loan

	2022	2021
Opening balance	\$ 14,342	\$ 21,322
Interest expense on loan (note 15 (d))	995	1,105
Prepayment	-	(4,500)
Modification loss due to early prepayment (note 15 (d))	-	590
Payments	(4,080)	(4,175)
Loan	\$ 11,257	\$ 14,342

The Company entered into a secured loan agreement (the "BDC Loan") for \$23.4 million with BDC Capital Inc. ("BDC") on March 26, 2019, with a repayment date of April 15, 2026 and a monthly contractual principal payment of \$250. Effective as of January 15, 2021, this loan bears interest at BDC floating rate plus a variance of 4.45% per annum and is payable on a monthly basis. During the year ended December 31, 2022, the Company entered into a loan amendment with BDC providing for, among other things (i) adjusting the final payment to \$150 payable on the April 15, 2026 and (ii) amendments to various covenants. As at December 31, 2022, BDC floating rate was 7.55% (2021: 4.55%). The Company is required to make a one-time payment to

BDC equal to 0.45% of the Company's annual gross sales at maturity. The BDC Loan is secured by a first ranking security interest in all present and after acquired personal property and all present and future intellectual property of the Company.

The Company is subject to various covenants under the BDC Loan, including requirements to maintain certain financial ratios. The BDC Loan is in good standing as of the date hereof.

During the year ended December 31, 2021, the Company made a prepayment of \$4,500 towards the BDC loan principal. The repayment schedule of the loan was revised accordingly to reflect this prepayment and the balloon payment was reduced by the prepayment amount. The Company recognized a modification loss of \$590 due to the change in repayment schedule of the loan and \$135 of prepayment penalties.

The Company recognized \$995 (2021: \$1,105) of interest expense. Interest expense is calculated by applying the effective interest rate of 12.00% (2021: 8.00%).

(b) Class A, Class B, and Class C preferred shares

On April 5, 2019, the Company issued 10,000 Class A, 7,000 Class B, and 300 Class C preferred shares with a par value of \$1,000 for each preferred share. 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 on January 18, 2021 (note 15(c)). There are no preferred shares outstanding as at December 31, 2022.

(c) 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 bears no interest and 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.

The fair value of the promissory note at initial recognition is \$1,621 and the Company recognized a gain on extinguishment of \$nil (2021: \$350) from its preferred share liabilities in finance costs. As at December 31, 2022, the carrying value of the promissory note is \$1,884 (2021: \$1,744). During year ended December 31, 2022, no quarterly principal was paid to the promissory holders (2021: \$nil) and the Company recorded accretion expense of \$140 (2021: \$123) and \$nil in finance costs. Accretion expense is calculated by applying the effective interest rate of 8.00%.

(d) Finance costs

	2022	2021
Interest income net of bank charges	\$ (107)	\$ (67)
Interest expense on loan (note 15 (a))	995	1,105
Modification loss and prepayment penalties related to loan principal (note 15(a))	-	725
Gain on extinguishment of Class A,B,C preferred shares (note 15(c))	-	(350)
Accretion expense on promissory note (note 15(c))	140	123
Interest expense on lease liability (note 12(b))	496	262
Total finance costs	<u>\$ 1,524</u>	<u>\$ 1,798</u>

16. 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, accounts receivable, and 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.

There are no financial liabilities that are measured at fair value. 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, 2022			
Financial liabilities			
Loan (note 15(a))	\$ 11,257	\$ 10,787	\$ -
Promissory note	1,884	1,642	-
Total	<u>\$ 13,141</u>	<u>\$ 12,429</u>	<u>\$ -</u>
	Carrying value	Fair value measurement Level 2	Fair value measurement Level 3
December 31, 2021			
Financial liabilities			
Loan (note 15(a))	\$ 14,342	\$ 13,958	\$ -
Promissory note	1,744	1,722	-
Total	<u>\$ 16,086</u>	<u>\$ 15,680</u>	<u>\$ -</u>

During the year ended December 31, 2022 and 2021 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, 2022 and 2021 is shown in the table below.

	Amortized cost (Financial asset)	Amortized cost (Financial liabilities)	Total
December 31, 2022			
Financial assets			
Cash and cash equivalents	\$ 18,790	\$ -	\$ 18,790
Accounts and other receivables	897	-	897
Total financial assets	<u>\$ 19,687</u>	<u>\$ -</u>	<u>\$ 19,687</u>
Financial liabilities			
Account payable and accrued liabilities	\$ -	\$ 16,809	\$ 16,809
Loan	-	11,257	11,257
Promissory note	-	1,884	1,884
Total financial liabilities	<u>\$ -</u>	<u>\$ 29,950</u>	<u>\$ 29,950</u>

December 31, 2021	Amortized cost (Financial asset)	Amortized cost (Financial liabilities)	Total
Financial assets			
Cash and cash equivalents	\$ 20,505	\$ -	\$ 20,505
Accounts and other receivables	440	-	440
Total financial assets	<u>\$ 20,945</u>	<u>\$ -</u>	<u>\$ 20,945</u>
Financial liabilities			
Account payable and accrued liabilities	\$ -	\$ 10,298	\$ 10,298
Loan	-	14,342	14,342
Promissory note	-	1,744	1,744
Total financial liabilities	<u>\$ -</u>	<u>\$ 26,384</u>	<u>\$ 26,384</u>

17. 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 and long-term debt, 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 and 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 \$9.9 million (2021: \$12.9 million) as at December 31, 2022 which currently bears interest at 12.0% (2021: 8.0%). A 1% increase in the floating interest rate would have increased annual interest payable by \$300 (2021: \$118) and finance costs by \$138 (2021: \$126).

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:

	2022		2021	
	USD	CAD	USD	CAD
Cash and cash equivalents	\$ 12	\$ 804	\$ 1	\$ 2,171
Accounts and other receivables	-	190	-	184
Accounts payable and accrued liabilities	-	(6,786)	-	(4,587)
Total	\$ 12	\$ (5,792)	\$ 1	\$ (2,232)

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 \$527 (2021: \$203) on consolidated loss.

(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 does have some receivables exposure with respect to payment processors transferring customer funds to the Company and to rebates receivable from the Company's vendors. The majority of accounts receivables are settled in under 30 days. In order to reduce this risk, the Company uses industry leading payment processors, including Braintree Payment Gateway, 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 nominal (2021: nominal).

(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 manages 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, 2022 and 2021:

December 31, 2022						
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	\$ 16,809	\$ 16,809	\$ 16,809	\$ -	\$ -	\$ -
Loan - Principal amount	11,257	11,207	3,000	6,000	2,207	-
Loan - Interest	-	2,024	1,024	966	34	-
Promissory note	1,884	2,412	-	-	2,412	-
	<u>\$ 29,950</u>	<u>\$ 32,452</u>	<u>\$ 20,833</u>	<u>\$ 6,966</u>	<u>\$ 4,653</u>	<u>\$ -</u>

December 31, 2021

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	\$ 10,298	\$ 10,298	\$ 10,298	\$ -	\$ -	\$ -
Loan - Principal amount	14,342	14,386	3,000	6,000	5,386	-
Loan - Interest	-	2,262	922	1,124	216	-
Promissory note	1,744	2,412	-	-	2,412	-
	<u>\$ 26,384</u>	<u>\$ 29,358</u>	<u>\$ 14,220</u>	<u>\$ 7,124</u>	<u>\$ 8,014</u>	<u>\$ -</u>

18. Share capital**(a) Authorized**

- Unlimited common shares, each entitled to 1 vote without par value.

(b) Issued and outstanding preferred shares and common shares

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. As at December 31, 2021, there are no longer any preferred shares outstanding.

On January 19, 2021, the Company is completed its 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. The Company recorded \$4,252 of share issuance costs related to the IPO.

19. Share-based compensation**(a) Stock options**

In 2020, the Company adopted a stock option plan (the "Plan"), where options granted under the Company's previous option 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 the 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 following table summarizes information about the share options granted under the plan:

	Number	Weighted average exercise price
Balance: December 31, 2020	2,236,061	\$ 2.88
Granted: May 12, 2021	246,330	\$ 7.77
Granted: November 8, 2021	42,100	\$ 2.79
Exercised during the year	(93,916)	\$ 3.33
Forfeited during the year	(30,751)	\$ 7.44
Balance: December 31, 2021	2,399,824	\$ 3.30
Granted during the year	529,750	\$ 2.59
Forfeited during the year	(59,266)	\$ 4.01
Balance: December 31, 2022	2,870,308	\$ 3.16

During the year ended December 31, 2022, the Board approved an option grant by the Company of (1) 492,500 options which expire seven years after initial grant date, subject to a vesting schedule and the terms of the Company's option plan. These options have an exercise price of \$2.60, a term of 7 years, and vest over 3 years; and (2) 37,250 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 an exercise price of \$2.48 a term of 7 years, and vest over 3 years. The Company applies an estimated forfeiture rate of 10% on all options that were granted in 2022 and the exercise price for each option is the closing price of our common shares on the date of the grant.

During the year ended December 31, 2021, the Board approved an option grant by the Company of (1) 246,330 options which expire seven years after initial grant date, subject to a vesting schedule and the terms of the Company's option plan. These options have an exercise price of \$7.77, a term of 7 years, and vest over 3 years; and (2) 42,100 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 an exercise price of \$2.79, a term of 7 years, and vest over 3 years. The Company applies an estimated forfeiture rate of 10% on all options that were granted in 2021 and the exercise price for each option is the closing price of our common shares on the date of the grant.

The expected volatility was based on the Company's historical volatility and a comparison of peer companies' volatility. The total share-based payment expense recorded during the year ended December 31, 2022 from the vesting of these options was \$971 (2021: \$926), of which \$866 (2021: \$815) was classified as general and administration expense, \$92 (2021: \$63) as fulfillment expenses and \$13 (2021: \$48) as marketing expenses within the consolidated financial statements.

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	Expected volatility	Weighted average fair value	Forfeiture rate
May 12, 2021	7	1.34%	0%	100%	\$ 6.39	0% to 10%
November 8, 2021	5	1.33%	0%	66%	\$ 1.54	0% to 10%
March 30, 2022	5	1.73%	0%	63%	\$ 1.60	5% to 10%
November 8, 2022	5	3.52%	0%	71%	\$ 1.31	10%

The following table summarizes information about the share options as at December 31, 2022 and 2021:

December 31, 2022

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	1,964,200	3.75	\$ 2.61	1,964,200	September 30, 2026
\$ 5.22	125,734	4.58	\$ 5.22	110,400	July 29, 2027
\$ 6.52	39,560	4.58	\$ 6.52	26,528	July 29, 2027
\$ 7.77	212,464	5.36	\$ 7.77	71,383	May 11, 2028
\$ 2.79	1,100	5.86	\$ 2.79	367	November 7, 2028
\$ 2.60	490,000	6.08	\$ 2.60	-	March 29, 2029
\$ 2.48	37,250	6.86	\$ 2.48	-	November 7, 2029
	<u>2,870,308</u>	<u>4.36</u>	<u>\$ 3.16</u>	<u>2,172,878</u>	

December 31, 2021

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	1,964,200	4.75	\$ 2.61	1,312,534	September 30, 2026
\$ 5.22	125,734	5.58	\$ 5.22	72,067	July 29, 2027
\$ 6.52	44,160	5.58	\$ 6.52	15,028	July 29, 2027
\$ 7.77	223,630	6.36	\$ 7.77	-	May 11, 2028
\$ 2.79	42,100	6.86	\$ 2.79	-	November 7, 2028
	<u>2,399,824</u>	<u>5.00</u>	<u>\$ 3.30</u>	<u>1,399,629</u>	

(b) Restricted shares rights ("RSR")

In 2020, the Company adopted an RSR plan ("RSRP"), which is a component of the Company's long term incentive program, 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 RSRP 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 RSRP, the aggregate maximum number of Common Shares reserved for issuance under the RSRP 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. The weighted average grant date of the fair value of the RSRs below were determined with reference to the fair value of the underlying equity instruments at the grant date.

The following table summarizes information about the RSRs granted under the plan:

	Number	Weighted average grant date fair value
Balance: December 31, 2020	35,979	\$ 8.50
Granted for the year	127,502	\$ 4.09
Exercised during the year	(62,461)	\$ 7.47
Balance: December 31, 2021	101,020	\$ 3.60
Granted for the year	117,372	\$ 2.53
Exercised during the year	(160,072)	\$ 2.80
Balance: December 31, 2022	58,320	\$ 3.65

As at December 31, 2022, 50,480 RSRs (2021: 85,336) were vested and the remaining 7,840 RSRs (2021: 15,684) vest over one year (2021: two years). Share-based payment expense recorded during the year ended December 31, 2022 from the vesting of these RSRs was \$336 (2021: \$590) was classified as general and administration expense and \$12 (2021: \$nil) as marketing expense within the consolidated financial statements.

(c) Long term incentive plan

In 2022, the Company adopted a long term incentive plan ("LTIP") where interests in the plan may be granted to employees, officers, directors, management company employees and consultants of the Company for their contributions to the long-term performance of the Company. The purpose of the LTIP is to further align the interests of the Company with shareholders 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.

Pursuant to the terms of the LTIP, the LTIP performance periods will be three years in duration, beginning on the first day of the Company's fiscal year and ending on the last day of the third fiscal year thereafter, except for an initial implementation phase ("LTIP Performance Period"). The LTIP has two performance measures: Total Shareholder Return ("TSR"), defined as the average closing price per common share of the Company for the 60 trading days preceding the beginning of the LTIP Performance Period, adjusted for stock splits divided by the averaging closing price per common share of the Company for the 60 trading day period ending on the last day of the corresponding LTIP Performance Period and Realized Exit Value ("REV"), defined as total cash, stock, and/or other consideration, with any non-cash consideration valued as determined by the value ascribed to such consideration by the parties to such transaction received by a holder of common stock in connection with a change in control, calculated on a per share basis, ("REV"). At the beginning of each LTIP Performance Period the Board will establish cash awards to be delivered upon meeting the TSR or REV targets.

As at December 31, 2022, no interests in the LTIP have been granted.

20. Related party transactions

During the year ended December 31, 2022, the Company paid rent of \$70 (2021: \$76) to a company owned by a major shareholder of the Company and paid rent of \$120 (2021: \$118) to a company under common control of a major shareholder of the Company, of which \$21 (2021: \$31) is unpaid as at December 31, 2022. These amounts have been included in other general and administrative expense and are part of the Company's ordinary course of business. The contract terms are based on market rates for these types of services and amounts are payable on a monthly basis for the duration of the contract.

The promissory note holders (Note 15(c)) are certain key management of the Company; and their families and related entities.

During the year ended December 31, 2022, the Company recorded \$213 (2021: \$200) of share-based compensation and \$99 (2021: \$118) of Board fees and advisory fees to the directors, of which \$31 (2021: \$22) is unpaid as at December 31, 2022.

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, 2022, the Company recorded a bonus payable of \$385 (2021: \$290) to key management. Key management compensation comprises of wages and short-term employee benefits. For the year ended December 31, 2022, the Company paid \$2,312 (2021: \$1,657) of wages and short-term employee benefits to key management and recorded \$834 (2021: \$960) of key management share-based compensation.

21. Supplemental cash flow

For the year ended December 31, 2022, the Company paid interest of \$1,083 (2021: \$1,105) and received interest of \$107 (2021: \$67). There were no non-cash investing and financing activities for the year ended December 31, 2022 and 2021.

22. Earnings per share

Weighted average number of ordinary shares used as the denominator in calculating basic and diluted earnings per share is 31,274,298 (2021: 30,125,772).

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 19).

23. 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.