KITS EYECARE LTD.
Condensed Interim Consolidated Financial Statements
For the Three and Six Months ended June 30, 2024 and June 30, 2023
(in thousands of Canadian Dollars, except share and per share data)
(Unaudited)

KITS EYECARE LTD.
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF INCOME (LOSS)
(in thousands of Canadian Dollars, except share and per share data)
(Unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2024	**2023**	**2024**	**2023**
Revenue (Note 3)	$ 37,852	$ 30,030	$ 72,634	$ 57,697
Cost of sales	25,441	20,121	49,050	38,661
Gross profit	12,411	9,909	23,584	19,036
Fulfillment	4,243	3,794	8,382	7,259
Marketing	5,057	4,103	9,581	8,101
General and administrative	2,711	1,969	5,124	3,904
Exchange (gain)/loss	(358)	775	(1,179)	814
Depreciation and amortization	217	492	733	1,095
Operating income (loss)	541	(1,224)	943	(2,137)
Finance costs - net	147	226	467	607
Income (Loss) before income taxes	$ 394	(1,450)	$ 476	$ (2,744)
Income taxes (Note 12)	207	(266)	225	(540)
Net income (loss) for the period	$ 187	$ (1,184)	$ 251	$ (2,204)
Income (Loss) per share (Note 13)				
Basic	$ 0.01	$ (0.04)	$ 0.01	$ (0.07)
Diluted	$ 0.01	$ (0.04)	$ 0.01	$ (0.07)
Weighted average number of shares outstanding (Note 13)				
Basic	31,461,257	31,382,798	31,455,679	31,374,909
Diluted	33,640,629	31,382,798	33,610,262	31,374,909

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

KITS EYECARE LTD.
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(in thousands of Canadian Dollars, except share and per share data)
(Unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2024	**2023**	**2024**	**2023**
Net income (loss) for the period	$ 187	$ (1,184)	$ 251	$ (2,204)
Other comprehensive income for the period:				
Items that may be reclassified to profit or loss				
Currency translation differences	275	(599)	911	(637)
Total comprehensive income (loss) for the period	$ 462	$ (1,783)	$ 1,162	$ (2,841)

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

KITS EYECARE LTD.
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(in thousands of Canadian Dollars, except share and per share data)
(Unaudited)

	June 30, 2024	December 31, 2023
Assets		
Current assets		
Cash and cash equivalents	$ 19,310	$ 16,040
Accounts and other receivables	1,724	1,794
Inventory (Note 6)	16,325	15,409
Tax receivable	9	9
Prepaids, deposits and other assets	1,805	728
Total current assets	39,173	33,980
Property and equipment (Note 7)	3,761	2,403
Right-of-use asset (Note 8)	6,349	6,249
Deferred tax asset (Note 12)	5,726	5,683
Intangible assets (Note 14)	1,132	1,467
Goodwill (Note 14)	39,179	37,859
Total assets	$ 95,320	$ 87,641
Liabilities and shareholders' equity		
Current liabilities		
Accounts payable and accrued liabilities	$ 22,102	$ 15,964
Tax payable	485	412
Deferred revenue (Note 3)	5,441	4,425
Loan (Note 4(a))	3,041	3,032
Lease liability (Note 8)	791	691
Total current liabilities	31,860	24,524
Loan (Note 4(a))	3,092	4,653
Promissory note (Note 4(b))	2,114	2,035
Lease liability (Note 8)	4,837	4,983
Total liabilities	41,903	36,195
Shareholders' equity		
Share capital (Note 9)	78,094	77,386
Contributed surplus (Note 10)	3,141	3,040
Retained deficit	(27,663)	(27,914)
Accumulated other comprehensive loss	(155)	(1,066)
Total shareholders' equity	53,417	51,446
Total liabilities and shareholders' equity	$ 95,320	$ 87,641

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

Commitments – Note 15
Contingencies – Note 16

KITS EYECARE LTD.
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(in thousands of Canadian Dollars, except share and per share data)
(Unaudited)

	Share Capital		Contributed surplus	Retained earnings (deficit)	Accumulated other comprehensive	Total
	Common shares					
	Shares	Amount				
Balance as at December 31, 2022	31,316,452	$ 76,985	$ 2,863	$ (25,699)	$ (440)	53,709
Share-based payments (Note 10)	-	-	512	-	-	512
RSR excerise (Note 9)	66,764	188	(188)	-	-	-
Net loss and comprehensive loss for the period ending June 30, 2023	-	-	-	(2,204)	(637)	(2,841)
Balance as at June 30, 2023	31,383,216	$ 77,173	$ 3,187	$ (27,903)	$ (1,077)	$ 51,380
Balance as at December 31, 2023	31,439,781	$ 77,386	$ 3,040	$ (27,914)	$ (1,066)	51,446
Share-based payments (Note 10)	-	-	809	-	-	809
RSR excerise (Note 9)	112,118	708	(708)	-	-	-
Net income and comprehensive income for the period ending June 30, 2024	-	-	-	251	911	1,162
Balance as at June 30, 2024	31,551,899	$ 78,094	$ 3,141	$ (27,663)	$ (155)	$ 53,417

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

KITS EYECARE LTD.
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands of Canadian Dollars, except share and per share data)
(Unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2024	**2023**	**2024**	**2023**
Operating activities				
Net Income / (Loss)	$ 187	$ (1,184)	$ 251	$ (2,204)
Items not affecting cash:				
Share-based payments (Note 10)	539	204	809	512
Depreciation of property and equipment and right-of-use assets	575	419	993	841
Amortization of intangible assets (Note 14)	17	335	353	779
Finance costs	318	398	646	807
Income taxes	207	(266)	225	(540)
Unrealized foreign exchange (gain)	(57)	187	(195)	129
Changes in non-cash operating working capital:				
Accounts receivable	(198)	(111)	70	74
Inventory	(668)	58	(916)	1,989
Prepaid expenses and other assets	(901)	82	(1,077)	350
Accounts payable and accrued liabilities	2,096	1,434	4,852	577
Deferred revenue	785	(86)	1,015	164
Income tax refund (paid) / received	(24)	-	(24)	11
Cash provided by operating activities	**2,876**	**1,470**	**7,002**	**3,489**
Financing activities				
Repayment of lease obligation (Note 8)	(299)	(332)	(582)	(539)
Repayment of loan (Note 4(a))	(939)	(1,025)	(1,900)	(2,065)
Cash used in financing activities	**(1,238)**	**(1,357)**	**(2,482)**	**(2,604)**
Investing activities				
Purchase of property and equipment	(512)	(283)	(538)	(289)
Cash used in investing activities	**(512)**	**(283)**	**(538)**	**(289)**
Increase / (decrease) in cash and cash equivalents	**1,126**	**(170)**	**3,982**	**596**
Foreign exchange effect on cash and cash equivalents	(209)	421	(712)	439
Cash and cash equivalents, beginning of period	18,393	19,574	16,040	18,790
Cash and cash equivalents, end of period	**$ 19,310**	**$ 19,825**	**$ 19,310**	**$ 19,825**

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

1. Nature of operations

Kits Eyecare Ltd. (the "Company" or "KITS") is 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.

The Company is listed on the Toronto Stock Exchange (the "TSX") under the symbol "KITS".

2. Basis of preparation and statement of compliance

The Company prepares its annual consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). These condensed interim consolidated financial statements have been prepared in accordance with IAS 34, Interim Financial Reporting (IAS 34).

These condensed interim consolidated financial statements should be read in conjunction with the Company's most recent annual consolidated financial statements for the year ended December 31, 2023, as some disclosures from the annual consolidated financial statements have been condensed or omitted. There are no IFRS or International Financial Reporting Interpretations Committee interpretations that are not yet effective that would be expected to have a material impact on the Company's condensed interim consolidated financial statements.

On August 6, 2024, the board of directors of the Company (the "Board") authorized these condensed interim consolidated financial statements for issuance.

Critical accounting estimates and judgements
In preparing these condensed interim consolidated financial statements management has made judgements and estimates that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

The significant estimates and judgements made by management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those described in the most recent annual consolidated financial statements.

3. Segment information and deferred revenue

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

Geographic information
The Company determines the geographic location of revenue based on the location of its customers. For the three and six months ended June 30, 2024, the US/CDN exchange rate appreciated by 1.8% and 0.8% (2023: 5.0% and 5.7%).

	Three months ended June 30,		Six months ended June 30,	
	2024	2023	2024	2023
United States	$ 25,959	$ 21,945	$ 49,883	$ 41,963
Canada and other	11,893	8,085	22,751	15,734
Total	$ 37,852	$ 30,030	$ 72,634	$ 57,697

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

Deferred revenue

Deferred revenue consists of credit vouchers of $1,143 (December 31, 2023: $1,019), unfulfilled orders of $3,148 (December 31, 2023: $2,493) and allowance for estimated returns of $1,150 (December 31, 2023: $913). 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

	Three months ended June 30,		Six months ended June 30,	
	2024	2023	2024	2023
Contact Lenses	$ 32,874	$ 26,517	$ 63,062	$ 50,802
Glasses	4,978	3,513	9,572	6,895
Total	$ 37,852	$ 30,030	$ 72,634	$ 57,697

4. Financial liabilities

(a) Loan

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 the BDC floating rate plus a variance of 4.45% per annum and is payable on a monthly basis. As at June 30, 2024, the BDC floating rate was 9.05% (2023: 9.30%). 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 compliance with all debt covenants as of the date hereof.

As at June 30, 2024, the carrying amount of the loan is $6,133 (2023: $7,685), and the principal amount owing is $5,400 (2023: $6,900). For the three and six months ended June 30, 2024, the Company made repayments of $939 and $1,900 (2023: $1,025 and $2,065) and recognized $164 and $348 (2023: $245 and $502) of interest expense in finance costs. Interest expense is calculated by applying the effective interest rate of 12.50% (2023: 12.75%).

(b) Promissory note

On January 18, 2021, the Company issued a promissory note of $2,412 (the "Promissory Note"). The Promissory Note bears no interest and matures on the earlier of January 31, 2026 or the date after the BDC loan has been repaid in full (the "Maturity Date"). Unpaid principal shall be payable in quarterly installments beginning on March 31, 2021 of $121, subject to the consent of BDC. To date, no quarterly principal has been paid. Any unpaid principal shall be payable in full upon the Maturity Date.

As at June 30, 2024, the carrying value of the Promissory Note is $2,114 (2023: $2,035). During the three and six months ended June 30, 2024, no quarterly principal was paid to the Promissory Note holders and the Company recorded accretion expense of $40 and $79 (2023: $37 and $73) in finance costs. Accretion expense is calculated by applying the effective interest rate of 8.00%.

5. 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 amounts and the fair values of financial liabilities, including their levels in the fair value hierarchy.

	June 30, 2024			December 31, 2023		
	Carrying value	Fair value measurement Level 2	Fair value measurement Level 3	Carrying value	Fair value measurement Level 2	Fair value measurement Level 3
Financial liabilities						
Loan	$ 6,133	$ 5,973	$ -	$ 7,685	$ 7,436	$ -
Promissory note	2,114	1,944	-	2,035	1,818	-
Total	$ 8,247	$ 7,917	$ -	$ 9,720	$ 9,254	$ -

During the three and six months ended June 30, 2024, 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 June 30, 2024 and December 31, 2023 is shown in the table below.

	June 30, 2024			December 31, 2023		
	Amortized cost (Financial asset)	Amortized cost (Financial liabilities)	Total	Amortized cost (Financial asset)	Amortized cost (Financial liabilities)	Total
Financial assets						
Cash and cash equivalents	$ 19,310	$ -	$ 19,310	$ 16,040	$ -	$ 16,040
Accounts and other receivables	1,724	-	1,724	1,688	-	1,688
Total financial assets	$ 21,034	$ -	$ 21,034	$ 17,728	$ -	$ 17,728
Financial liabilities						
Account payable and accrued liabilities	$ -	$ 22,102	$ 22,102	$ -	$ 15,964	$ 15,964
Loan	-	6,133	6,133	-	7,685	7,685
Promissory note	-	2,114	2,114	-	2,035	2,035
Total financial liabilities	$ -	$ 30,349	$ 30,349	$ -	$ 25,684	$ 25,684

Valuation techniques and significant unobservable inputs

To determine the fair value of financial liabilities at initial recognition, the Company considered the present value of expected payments, discounted using a risk-adjusted discount rate. As at March 31, 2024, none of the Company's financial liabilities are subsequently measured at fair value after initial recognition.

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 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.

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 the BDC floating base rate plus a margin. As a result, the Company is exposed to interest rate risk due to fluctuations in the BDC floating base rate. The principal amount outstanding under the BDC Loan was $5,400 as at June 30, 2024 (December 31, 2023: $6,900) which currently bears interest at 12.5% (December 31, 2023: 12.75%). For the six months ended June 30, 2024, a 1.0% increase in the floating interest rate would have increased interest paid by $25 (December 31, 2023: $117) and finance costs by $19 (December 31, 2023: $114).

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 as at June 30, 2024:

	June 30, 2024		December 31, 2023	
	USD	CAD	USD	CAD
Cash and cash equivalents	$ -	$ 857	$ 12	$ 1,292
Accounts and other receivables	-	865	-	876
Accounts payable and accrued liabilities	-	(11,733)	-	(7,354)
Total	$ -	$ (10,011)	$ 12	$ (5,186)

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 $910 (December 31, 2023: $472) on net income.

Credit risk

Credit risk refers to the possibility that the Company can suffer financial losses due to the failure of the Company's counterparties to meet their payment obligations. The Company is exposed to minimal credit risk. The Company does not extend credit to customers, but do have some receivables exposure with respect to payment processors transferring customer funds to the Company and to rebates receivable from the Company's vendors. 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, 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.

Liquidity risk

Liquidity risk is the risk that we cannot meet a demand for cash or fund our obligations as they come due. The Company manage liquidity risk by continuously monitoring actual and projected cash flows, taking into account the seasonality of the Company's revenue, income and working capital needs. The following table summarizes the amount of contractual undiscounted future cash flow requirements as June 30, 2024.

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	$ 22,102	$ 22,102	$ 22,102	$ -	$ -	$ -
Loan - Principal amount	6,133	6,120	3,000	3,120	-	-
Loan - Interest	-	636	503	133	-	-
Promissory note	2,114	2,412	-	2,412	-	-
	$ 30,349	$ 31,270	$ 25,605	$ 5,665	$ -	$ -

6. Inventory

As at June 30, 2024, inventory comprised of $10,365 (2023: $9,924) of contact lenses, $4,455 (2023: $4,202) of frames, prescription lenses of $1,006 (2023: $986), and other miscellaneous inventory of $499 (2023: $297).

7. Property and equipment

During the six months ended June 30, 2024, the Company had property and equipment additions of $1,825 (2023: $289), disposed of $nil (2023: $nil) of property and equipment, received $nil (2023: $nil) of cash proceeds from disposal, recognized depreciation expense of $559 (2023: $439) and recorded $92 (2023: $60) exchange differences. $1,286 (2023: nil) of property and equipment addition remains unpaid.

8. Leases

During the six months ended June 30, 2024, the Company had $318 (2023: $nil) of lease liability additions, paid $582 (2023: $539) of lease payments, recognized $218 (2023: $232) of accretion expense, and $nil (2023: $nil) of foreign exchange differences.

During the six months ended June 30, 2024, the Company had $318 (2023: $nil) of right-of-use asset additions, recognized depreciation expense of $434 (2023: $403) and incurred $216 (2023: $154) of exchange differences.

9. Share capital

During the six months ended June 30, 2024, 112,118 (2023: 66,764) vested RSRs were delivered to its management, employees and directors.

10. Share-based compensation

During the six months ended June 30, 2024, the Company granted 17,329 restricted shares rights ("RSRs") to its directors which vest immediately upon grant and 92,679 RSRs to its management and employees that vest on June 30, 2024. The RSRs have a weighted fair value of $6.43 which is the Company's average share price for the period the services were provided. As at June 30, 2024, the Company has a total 8,211 of outstanding RSRs, which are fully vested.

During the six months ended June 30, 2024, 53,500 (2023: 5,334) stock options were forfeited at a weighted average exercise price of $7.77 (2023: $5.79). As at June 30, 2024, the Company has a total of 2,669,140 (2023: 2,864,974) of stock options outstanding with a weighted average exercise price of $2.90 (2023: $3.15) and a weighted average remaining contractual life of 2.80 years (2023: 3.89 years), comprising of 2,501,779 (2023: 2,451,249) of exercisable stock options with a weighted average exercise price of $2.92 (2023: $3:10).

Share-based compensation expense related to stock options and RSRs of $539 and $809 (2023: $204 and $512) was recorded for the three months and six months ended June 30, 2024, respectively.

11. Related party transactions

During the three and six months ended June 30, 2024, the Company recorded $31 and $62 (2023: 31 and $62) of Board fees to its directors and $56 and $113 (2023: $56 and $113) of share-based compensation. $31 of Board fees remain unpaid as at June 30, 2024.

Key management compensation
Key management consists of the directors and officers of the company. Key management compensation comprises of wages and employee benefits. For the three and six months ended June 30, 2024, the Company paid $523 and $906 (2023: $532 and $966) of wages and employee benefits to key management and recorded $439 and $621 (2023: $98 and $274) of key management share-based expense.

12. Income taxes

The Company calculates the period income tax expense using the tax rate that would be applicable to the expected total annual earnings. The major components of income tax expense in the condensed interim consolidated statement of income/(loss) for the three and six months ended June 30, 2024 comprises of current income tax expense of $81 and $83 ((2023: $nil and $nil) and deferred income tax expense / (recovery) of $126 and $142 (2023: $(266) and $(540)).

As at June 30, 2024, deferred tax assets consist of available non-capital losses and other tax deductions of $6,967 (2023: $6,742), net of deferred tax liability arising from property and equipment, right of use assets and net of lease liability of $848 (2023: $665), intangible assets of $79 (2023: $169), promissory note of $80 (2023: $102), and foreign exchange of $234 (2023: $123). The Company has non-capital losses of approximately $22,773 (2023: $21,926) that can be applied against future years' taxable income for Canadian income tax purposes. The Company has recognized these losses as a deferred income tax asset as it expects to utilize these losses against future taxable income.

13. Income (Loss) per share

For the three and six months ended June 30, 2024, the weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share includes the 2,179,372 and 2,154,583 share equivalents of the vested options. There is no change to the net income attributable to ordinary shareholders (diluted) for the three and six months ended June 30, 2024.

For the three and six months ended June 30, 2023, 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 of the Company.

14. Goodwill and intangible assets

During the six months ended June 30, 2024, the Company recognized $353 (2023: $779) of amortization expenses, and $1,338 (2023: $903) of exchange differences. The Company exercises judgement to determine

whether there is an impairment indicator requiring an impairment test for its goodwill and indefinite life intangible assets to be completed. As at June 30, 2024, no impairment indicators exist.

15. Commitments

As of June 30, 2024, the Company had outstanding capital commitments for equipment purchase of $307.

16. Contingencies

The Company is, from time to time, involved in various claims, legal proceedings and complaints arising in the ordinary course of business. The Company 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.