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# Q2 2021

## Management Discussion & Analysis

Katapult Technology Corp.

June 30, 2021

The discussion and analysis of the financial condition and results of operations of the Corporation is prepared as at August 19, 2021 and should be read in conjunction with the unaudited condensed interim financial statements of Katapult Technology Corp., and the notes thereto, for the three- and six-month periods ended June 30, 2021, and with the audited financial statements of Katapult Technology Corp., and the notes thereto, for the year ended December 31, 2021.

All financial information is presented in thousands of Canadian dollars, except share and per share data, and where otherwise indicated.

## MANAGEMENT DISCUSSION AND ANALYSIS

The following management discussion and analysis ("MD&A") of the unaudited financial condition and consolidated results of operations is intended to help the reader understand the current and prospective consolidated financial position and consolidated operating results of Katapult Technology Corp. (the "Corporation" or "Katapult"). The MD&A discusses the operating and financial results for the three- and six-month periods ended June 30, 2021, is dated August 19, 2021, and takes into consideration information available up to that date.

The MD&A is based on the unaudited condensed interim financial statements of Katapult for the three- and six-month periods ended June 30, 2021. The MD&A should be read in conjunction with the unaudited condensed interim financial statements and related notes for the three- and six-month periods ended June 30, 2021, and the annual financial statements and related notes for the year ended December 31, 2020, prepared in accordance with International Financial Reporting Standards ("IFRS"). The Corporation's audited financial statements and unaudited interim financial statements have been prepared on the "going concern" basis, which presumes that the Corporation will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future.

Unless otherwise identified, the MD&A is presented in Canadian dollars, which is the Corporation's functional currency. All financial information presented in dollars has been rounded to the nearest thousand except for share and per share amounts.

Additional information is available on Katapult's website ([www.katapult.com](http://www.katapult.com)) and all previous public filings are available through SEDAR ([www.sedar.com](http://www.sedar.com)).

## FORWARD-LOOKING STATEMENTS

The MD&A contains certain forward-looking statements relating to the Corporation's plans, strategies, objectives, expectations, and intentions. The use of any of the words "expect", "anticipate", "continue", "estimate", "objective", "ongoing", "may", "will", "project", "should", "believe", "plans", "intends", "confident", "might" and similar expressions are intended to identify forward-looking information or statements. Various assumptions were used in drawing the conclusions or making the projections contained in the forward-looking statements throughout this MD&A. The forward-looking information and statements included in this MD&A are not guarantees of future performance and should not be unduly relied upon. Forward-looking statements are based on current expectations, estimates, and projections that involve a number of risks and uncertainties, which could cause actual results to differ materially from those anticipated and described in the forward-looking statements. Such information and statements involve known and unknown risks, uncertainties, and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking information or statements.

In particular, but without limiting the foregoing, this MD&A may contain forward-looking information and statements pertaining to the fluctuations in the demand for the Corporation's services; the ability for the Corporation to attract and retain qualified personnel; the existence of competitors; technological changes and developments; the existence of operating risks inherent in the financial technology ("fintech") industry; assumptions regarding foreign currency exchange rates and interest rates; the existence of regulatory and legislative uncertainties; the possibility of changes in tax laws and general economic conditions including the capital and credit markets and the impact of COVID-19; assumptions made about future sustainability, performance and operations. These and other ongoing risks are more fully described in the Corporation's MD&A for the year ended December 31, 2020. The Corporation cautions that the foregoing list of assumptions, risks, and uncertainties is not exhaustive. The forward-looking information and statements contained in this MD&A speak only as of the date of this MD&A, and the Corporation assumes no obligation to publicly update or revise them to reflect new events or circumstances, except as may be required pursuant to applicable securities laws.

## NON-GAAP MEASURES AND ADDITIONAL GAAP MEASURES

Throughout this document, reference is made to “gross profit”, “working capital”, and “Adjusted EBITDA”, which are all non-IFRS measures. Management believes that *gross profit* is a useful supplemental measure of operations and that *working capital* is a useful indicator of the Corporation’s liquidity and its ability to meet its current obligations. While EBITDA, which is earnings before finance costs including unrealized gains and losses on financial instruments, tax, and depreciation and amortization, is a useful measure, Management believes that *Adjusted EBITDA* is a more appropriate measure for comparing results from one period to another as Adjusted EBITDA normalizes earnings to exclude certain non-operating, non-cash, and extraordinary amounts. Other key metrics are *Monthly Recurring Revenue (“MRR”)* and *Churn Rate*. All these terms are defined below. Readers are cautioned that these non-IFRS measures may not be comparable to similar measures used by other companies. Readers are also cautioned not to view these non-IFRS financial measures as an alternative to financial measures calculated in accordance with IFRS.

### NON-GAAP MEASURES DEFINITIONS

“**Adjusted EBITDA**” is a measure of the Corporation’s operating profitability. Adjusted EBITDA provides an indication of the results generated by the Corporation’s principal business activities prior to how these activities are financed (including fair value adjustments of the convertible debenture value), assets are depreciated and amortized or how the results are taxed in various jurisdictions, prior to the effect of foreign exchange, other income and expenses, and non-cash share-based payment expense. Adjusted EBITDA is not intended to represent net earnings as calculated in accordance with IFRS.

Adjusted EBITDA is calculated as follows:

(\$ Cdn thousands)	Three months ended		Six months ended	
	June 30, 2021	2020	June 30, 2021	2020
Net loss	(323)	(620)	(1,161)	(1,348)
Plus:				
Depreciation and amortization	7	10	15	14
Finance costs	136	81	254	170
Unrealized (gain) loss on convertible debentures	(292)	69	136	347
Foreign exchange (gain) loss	(3)	21	19	(23)
Share-based payments	103	136	59	273
Other income	(4)	(22)	(27)	(25)
Adjusted EBITDA	(376)	(325)	(705)	(592)

“**Working capital**” is used by management and the investment community to analyze the operating liquidity available to the Corporation. Working capital is calculated based on current assets less current liabilities.

Working capital is derived from the statements of financial positions and is calculated as follows:

As at (\$ Cdn thousands) - unaudited	June 30, 2021	December 31, 2020	Increase (decrease) in working capital
Current assets			
Cash and cash equivalents	3,494	865	2,629
Accounts receivable	33	40	(7)
Prepaid expenses	22	10	12
Total current assets	3,549	915	2,634
Current liabilities			
Accounts payable and accrued liabilities	194	221	(27)
Deferred revenue	718	433	285
Current portion of lease obligation	37	33	4
Total current liabilities	949	687	262
<b>Working capital</b>	<b>2,600</b>	<b>228</b>	<b>2,372</b>

“**Monthly recurring revenue**” or “**MRR**” is used by management as a measure of performance as a Software as a Service (“SaaS”) company. Management is focused on increasing the Corporation’s MRR with its existing customer base as well as by adding additional customers.

“**Churn**” is used by management as a measure of performance as a SaaS company. Churn is measurement of MRR that is cancelled or not renewed.

#### ADDITIONAL GAAP MEASURES DEFINITIONS

“**Funds used in operations**” is used by management to analyze the funds generated by the Corporation’s principal business activities prior to consideration of working capital, which is primarily made up of highly liquid balances. This balance is reported in the Statements of Cash Flows included in the cash provided by operating activities section.

“**Gross profit**” is used by management to analyze overall and segmented operating performance. Gross profit is not intended to represent an alternative to net earnings or other measures of financial performance calculated in accordance with IFRS. Gross profit is calculated from the statements of operations and comprehensive income (loss) and from the segmented information contained in the notes to the financial statements. Gross profit is defined as revenue less cost of revenue.

“**Gross profit percentage**” is used by management to analyze overall and segmented operating performance. Gross profit percentage is calculated from the statements of operations and comprehensive income (loss) and from the segmented information in the notes to the financial statements. Gross profit percentage is defined as gross profit divided by revenue.

“**Subscription revenue**” consists of monthly recurring SaaS fees charged to clients for access to operate the Platform, software updates, new features and technical support.

“**Investment services revenue**” consists of fees charged to clients on qualifying services and/or transactions processed through Katapult’s Platform. While this revenue is expected to be recurring in nature, it will vary in size and timing as it is based on the volume and characteristics of the transactions processed.

“**Integration revenue**” are charges to clients for services that are viewed by the Corporation to be one-time in nature and to new clients for the provision of regulatory consulting services, and marketing and customization services. The charges vary depending on the amount and complexity of the work involved and the nature of the client’s needs.

## FINANCIAL AND OPERATION HIGHLIGHTS

(\$ Cdn thousands)	Three months ended		Six months ended	
	June 30, 2021	2020	June 30, 2021	2020
Subscription revenue <sup>(1)</sup>	409	329	787	658
Investment services revenue <sup>(1)</sup>	4	-	9	-
Integration revenue <sup>(1)</sup>	10	-	10	31
Total revenue	423	329	806	689
Gross profit <sup>(1)</sup>	335	253	640	548
Gross profit percentage <sup>(1)</sup>	79.2%	76.9%	79.4%	79.5%
Adjusted EBITDA <sup>(1)</sup>	(376)	(325)	(705)	(592)
Total comprehensive income (loss)	(323)	(620)	(1,161)	(1,348)

### Revenue

The Corporation continues to expand and improve its product to meet the evolving needs of existing and prospective new customers. Over the last several quarters, the Corporation has been focusing on the enterprise market and has made significant progress in capturing well-established financial services companies that can be used as references to spur and support additional sales. When compared to the same period of 2020, Subscription revenue increased 24% and 20% for the three- and six-months ended June 30, 2021 respectively.

The Corporation reported its first investment services revenue in the first quarter of 2021 and continued to generate additional similar revenue in the second quarter. This revenue stream is the result of fees charged to clients on qualifying services and/or transactions processed through Katapult’s Platform. While this revenue is expected to be recurring in nature, it will vary in size and timing as it is based on the volume and characteristics of the transactions processed.

The Corporation reported integration revenue of \$10 in the second quarter of 2021. Integration revenue is non-recurring and fluctuates from quarter-to-quarter as it is dependent on the number of new customers brought on in the quarter, and the level of the client’s needs of regulatory requirements, the level of customer-facing customization required and issues needing to be addressed to make the client ready to onboard.

### Continued investment impacts Adjusted EBITDA and Net Income

The gross profit percentage was 79.2% for the three-month period ended June 30, 2021 (three-month period ended June 30, 2020: 76.9%). The Corporation has maintained a gross profit percentage of over 70.0% since the fourth quarter of 2017.

Adjusted EBITDA losses increased to \$376 in the second quarter of 2021 (2020: \$325) and \$705 for the first half of 2021 (2020: \$592). The increase is mostly due to the higher salaries, subcontractors, and benefits expenditures as the Corporation continues to grow its base of key employees. The increased expenses were partially offset by increased revenue. The Corporation's net loss and comprehensive loss decreased to \$323 and \$1,161 for the three- and six-month period ended June 30, 2021 compared to \$620 and \$1,348 recorded in the comparative period of 2020. The decreased loss is due in large part to the non-cash revaluation of the Corporation's outstanding convertible debentures issued in 2018 (the "2018 Debentures"), partially offset by higher non-cash finance costs from the accretion of the 2021 convertible debenture (the "2021 Debenture").

## SECOND QUARTER 2021 HIGHLIGHTS

### VoPay Partnership and New Product Enhancements

On May 6, 2021, Katapult announced it had entered into a partnership agreement with VoPay to digitize online payments with speed, transparency and traceability for its SaaS deal management platform. This agreement enables enhanced, real time payments across multiple channels including ACH, EFT, wire and credit card. The integrated payment capability allows Katapult to better serve its US and Canadian customers and result in incremental transactional revenue for Katapult.

Along with its VoPay partnership, Katapult announced new product enhancements including:

- **Auto-Invest:** Investors can now automate their participation in deals by toggling "set and forget" preferences. Participation can be optimally tailored to the investors individual preferences without needing to be online the moment new investment offerings become available.
- **Repayments:** Issuers can now automate the capital return process including interest and dividend payments. Issuers simply define capital return rules and Katapult automatically processes these for investor accounts with comprehensive reporting via the investor portal.

### Additions to Katapult's Executive Leadership Team

On May 19, 2021, Katapult announced the appointment of James Church as VP, Product, and Stephen Donovan, VP, Customer Success to further scale the Corporation's go-to-market strategy

- Mr. Church has extensive experience in product management and a proven track record of driving growth and building high value SaaS software products within the financial services industry. Mr. Church was most recently VP Products at FINCAD, a capital markets FinTech vendor. Prior to FINCAD, Mr. Church was a key member of the product leadership team at Crystal Decisions, introducing the Crystal Analysis product line and helping the company become the fastest growing Business Intelligence vendor. Crystal Decisions was sold for \$820 million to Business Objects.
- Mr. Donovan is a seasoned client relations leader who played a key role at Refinitiv (formerly Thomson Reuters Financial & Risk) tailoring engagement strategies that helped customers maximize the value derived from Refinitiv solutions. Mr. Donovan led the Customer Success team for commodity and equity trading in the Americas, where he helped drive retention rates of 90%. Prior to his leadership role, Mr. Donovan managed a portfolio of customers across Canada including commodity trading, pension funds, and corporates that generated \$550K in monthly recurring revenues.

### Director Resignation

On June 18, 2021, Katapult announced that Mr. Marcus Shapiro resigned from the board of directors of the Corporation effective June 30, 2021.

## **Cormark Selected Katipult to Digitize its Private Placement Process**

On June 22, 2021, Katipult announced that Cormark Securities Inc., a leading independent investment dealer, would deploy Katipult's Platform as a strategic initiative to enhance its client experience and optimize internal workflow efficiencies through increased digitization while ensuring best in class regulatory compliance. Cormark will work with Katipult to streamline and digitize account openings, private placement subscriptions, and other compliance and internal functions within a fully integrated, secure, single platform.

## **OUTLOOK AND GUIDANCE**

This Outlook and Guidance contains forward-looking statements that the Corporation does not intend, and does not assume any obligation, to update, except as required by law. The forward-looking information and statements include:

- The current economic climate and its effect on the Corporation's client base business;
- The Corporation's ability to successfully acquire new customers;
- The Corporation's ability to successfully implement its technology; and
- Management's assumptions regarding the sustainability of recurring revenue streams and the Corporation's expected profitability.

The Corporation continues to focus on securing enterprise clients in North America. New recognizable client additions throughout the first half of the year, combined with a \$3.0 million investment from Canaccord Genuity closed in the first quarter of 2021, puts the Corporation in a strong position to execute on its 2021 sales plan and continue the momentum of securing enterprise clients in North America.

## **CORPORATE PROFILE**

### **Organization**

Katipult is a provider of an industry-leading and award-winning cloud-based software for powering the exchange of capital in equity and debt markets. The Corporation was originally incorporated under the *Business Corporations Act* (British Columbia). On October 2, 2019, the Corporation filed articles of continuance under the *Business Corporations Act* (Alberta). The registered address of the Corporation is 340, 318 11 Ave SE, Calgary, AB, T2G 0Y2. Katipult is a publicly traded company listed on the TSX Venture Exchange ("TSXV") under the symbol "FUND".

### **Operations**

The main business of the Corporation is to operate as a financial technology provider offering cloud-based software that allows firms to design, set up and operate an investment platform ("the Platform"). The Platform includes features and functionality that enables firms to offer debt and real-estate financing, as well as securities on a prospectus-exempt basis, to various types of investors. The Platform automates many components of investor and investment management, including components of financial transactions, investment marketing, and dividend payouts as well as managing regulatory requirements in a variety of geographic jurisdictions.

The Platform includes modules for various user types, including but not limited to investors, issuers, administrators, and auditors. The administrators are selected by clients from their staff and are provided a content management system which allows them the ability to manipulate content on the Platform.

The Corporation provides its proprietary software through a SaaS business model. In exchange for a monthly subscription, customers benefit from software updates, new features and technical support. The Corporation also earns integration revenue and investment services revenue. Integration revenue is generated through activities including the provision of regulatory consulting, marketing, and the customization services of the Platform, for which one-time charges are made and vary depending on the work involved. Investment services revenue is derived through fees charged to clients on qualifying services and/or transactions processed through Katapult’s Platform.

## RESULTS OF OPERATIONS

(\$ Cdn thousands)	Three months ended		Six months ended	
	June 30, 2021	2020	June 30, 2021	2020
Subscription revenue <sup>(1)</sup>	409	329	787	658
Investment services revenue <sup>(1)</sup>	4	-	9	-
Integration revenue <sup>(1)</sup>	10	-	10	31
	<b>423</b>	329	<b>806</b>	689
Cost of revenue	88	76	166	141
Gross profit <sup>(1)</sup>	<b>335</b>	253	<b>640</b>	548
Gross profit percentage <sup>(1)</sup>	<b>79.2%</b>	76.9%	<b>79.4%</b>	79.5%

The Corporation continues to expand and improve its product to meet the evolving needs of existing and prospective new customers. Over the last several quarters, the Corporation has been focusing on the enterprise market and has made significant progress in capturing well-established, well reputed companies that can be used as references to spur and support additional sales. When compared to the same period of 2020, Subscription revenue has increased 24% and 20% for the three- and six-months ended June 30, 2021 respectively.

The Corporation reported its first investment services revenue in 2021. This is a new revenue stream for the Corporation and is the result of fees charged to clients on qualifying services and/or transactions processed through Katapult’s Platform. While this revenue is expected to be recurring in nature, it will vary in size and timing as it is based on the volume and characteristics of the transactions processed.

The Corporation reported integration revenue of \$10 in the first half of 2021 (all of it in the second quarter) compared to \$31 for the same period last year. Integration revenue is non-recurring and fluctuates from quarter-to-quarter as it is dependent on the number of new customers brought on in the quarter, and the level of the client’s understanding of regulatory requirements, the level of customer-facing customization required and issues needing to be addressed to make the client ready to onboard.

The gross profit percentage was 79.2% and 79.4% for the three- and six-month period ended June 30, 2021 (2020: 76.9% and 79.5%). The gross profit increase in the second quarter was largely due to the higher integration revenue.

<sup>(1)</sup> See Non-GAAP measures and additional GAAP measures



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**SELLING, GENERAL, AND ADMINISTRATIVE**


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(\$ Cdn thousands)	Three months ended		Six months ended	
	June 30, 2021	2020	June 30, 2021	2020
Selling, general, and administrative				
less share-based payments and bad debt expense	<b>506</b>	315	<b>957</b>	678
Bad debt (recovery) expense	-	44	<b>(7)</b>	61
Share-based payments	<b>103</b>	136	<b>59</b>	273
Selling, general, and administrative	<b>609</b>	495	<b>1,009</b>	1,012

For the three- and six-month period ended June 30, 2021, selling, general and administrative (SG&A) expenses before share-based payments and bad debt expenses increased when compared to the same periods in 2020. The increase is the result of additional management hires and higher sales and marketing costs.

During the quarter, the Corporation recovered \$7 of previously booked bad debt expense. In 2020, the Corporation took a larger allowance for bad debts due to customers having delayed payments as they dealt with pandemic related uncertainties in their own business. The Corporation continues to target more established customers and has put in place processes to reduce credit risk, including more robust contracts, maintaining a vigilant collection process, credit checks where practical, and establishing a reserve against revenue for estimated uncollectible invoices.

Included in SG&A expenses is share-based payment of \$59 (2020: \$273). The expense is driven by the issuance and vesting timing of restricted share units and stock options.

**RESEARCH AND DEVELOPMENT**


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(\$ Cdn thousands)	Three months ended		Six months ended	
	June 30, 2021	2020	June 30, 2021	2020
Research and development	<b>205</b>	219	<b>395</b>	401

Research and development (R&D) expenses remained relatively flat in the three- and six-months ended June 30, 2021, compared to the comparative periods in 2020.

**FOREIGN EXCHANGE**


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(\$ Cdn thousands)	Three months ended		Six months ended	
	June 30, 2021	2020	June 30, 2021	2020
Foreign exchange (gain) loss	<b>(3)</b>	21	<b>19</b>	(23)

Foreign exchange gains and losses are the result of foreign currency fluctuations during the period and the timing of when items are settled. Foreign exchange gains and losses fluctuate primarily in relation to changes in the US/Canadian and Euro/Canadian exchange rate.

## FINANCE COSTS

(\$ Cdn thousands)	Three months ended		Six months ended	
	June 30, 2021	2020	June 30, 2021	2020
Bank related charges	3	5	8	14
Interest on 2018 Debentures	81	74	177	148
Accretion on 2021 Debenture	48	-	60	-
Interest on lease obligation	2	2	5	8
Other interest and charges	2	-	4	-
Finance costs	136	81	254	170
Unrealized (gain) loss on 2018 Debentures	(292)	69	136	347

Finance costs increased for the three- and six-month period ended June 30, 2021, compared to the same period in the prior year mainly due to increased interest on the 2018 Debentures and the accretion on 2021 Convertible Debentures. The 2018 Debentures are hybrid contracts with multiple embedded derivatives. The Corporation has measured the entire hybrid contract at fair value with adjustments recorded in profit or loss.

The increased interest on the 2018 Debentures is due to the compounding nature of the accrued interest. The interest is a non-cash item prior to maturity.

In the first quarter of 2021, the Corporation issued the 2021 Debenture and recorded a non-cash accretion on that instrument.

Interest on lease obligation is related to an office lease entered in the first quarter of 2020 for the Corporation's head office.

Other interest and charges are related to accretion on the CEBA loans.

## OTHER INCOME

(\$ Cdn thousands)	Three months ended		Six months ended	
	June 30, 2021	2020	June 30, 2021	2020
Interest and other income	(2)	(7)	(3)	(10)
Government grants	(2)	(15)	(24)	(15)
Total other income and expenses	(4)	(22)	(27)	(25)

Other income and expenses contain items that occur outside of the normal operating activities of the Corporation. Government grants are related to CEBA loan and Scientific Research and Experimental Development program ("SRED").

**NET EARNINGS, TOTAL COMPREHENSIVE INCOME (LOSS), AND CASH FLOWS**

(\$ Cdn thousands)	Three months ended		Six months ended	
	June 30, 2021	2020	June 30, 2021	2020
Adjusted EBITDA <sup>(1)</sup>	<b>(376)</b>	(325)	<b>(705)</b>	(592)
Total comprehensive income (loss)	<b>(323)</b>	(620)	<b>(1,161)</b>	(1,348)
Funds used in operations <sup>(1)</sup>	<b>(375)</b>	(308)	<b>(686)</b>	(581)
Cash flow provided (used in) by operations	<b>(296)</b>	(186)	<b>(484)</b>	(529)

Adjusted EBITDA losses increased to \$376 in the second quarter of 2021 (2020: \$325) and \$705 for the first half of 2021 (2020: \$592). The increase is mostly due to the higher salaries, subcontractors, and benefits expenditures as the Corporation continues to grow its base of key employees. The increased expenses were partially offset by increased revenue.

The Corporation's net loss and comprehensive loss decreased to \$323 and \$1,161 for the three- and six-month period ended June 30, 2021 compared to \$620 and \$1,348 recorded in the comparative period of 2020. The decreased loss is due in large part to the non-cash revaluation of the 2018 Debentures, partially offset by higher non-cash finance costs from the accretion of the 2021 Debenture.

Funds used in operations increased for the three- and six-month period ended June 30, 2021 compared to the prior comparative periods in 2020. The increase is largely due to the increase in salary, subcontractor, and benefits, offset by the increase in revenue. The cash flow used in operation takes the changes in working capital into account.

**FINANCIAL AND OPERATING HIGHLIGHTS - QUARTERLY ANALYSIS**

(\$ Cdn thousands)	2021			2020			2019		
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3	
Subscription revenue <sup>(1)</sup>	<b>409</b>	378	329	301	329	329	329	365	
Investment services revenue <sup>(1)</sup>	<b>4</b>	5	-	-	-	-	-	-	
Integration revenue <sup>(1)</sup>	<b>10</b>	-	-	-	-	31	53	22	
Total revenue	<b>423</b>	383	329	301	329	360	382	387	
Gross profit <sup>(1)</sup>	<b>335</b>	305	253	232	253	295	312	311	
Gross profit - percentage <sup>(1)</sup>	<b>79.2%</b>	79.6%	76.9%	77.1%	76.9%	81.9%	81.7%	80.4%	
Selling, general, and administrative	<b>609</b>	400	223	494	495	517	509	438	
Research and development	<b>205</b>	190	195	190	219	182	161	190	
Adjusted EBITDA <sup>(1)</sup>	<b>(376)</b>	(329)	(289)	(387)	(325)	(267)	(219)	(242)	
Net income (loss) and comprehensive income (loss)	<b>(323)</b>	(838)	239	(768)	(620)	(728)	709	(353)	

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**LIQUIDITY AND CAPITAL RESOURCES**
**Working capital**

As at (\$ Cdn thousands) - unaudited	June 30, 2021	December 31, 2020	Increase (decrease) in working capital
Current assets			
Cash and cash equivalents	3,494	865	2,629
Accounts receivable	33	40	(7)
Prepaid expenses	22	10	12
Total current assets	<b>3,549</b>	915	2,634
Current liabilities			
Accounts payable and accrued liabilities	194	221	(27)
Deferred revenue	718	433	285
Current portion of lease obligation	37	33	4
Total current liabilities	<b>949</b>	687	262
<b>Working capital</b> <sup>(1)</sup>	<b>2,600</b>	228	2,372

**Liquidity**

As at June 30, 2021, the Corporation's cash and cash equivalents were \$3,494 (December 31, 2020: \$865). The Corporation had a positive net working capital position of \$2,600 (December 31, 2020: \$228). The Corporation had a net loss for the period ended June 30, 2021 of \$1,161 (June 30, 2020: \$1,348), used cash in operations of \$484 (June 30, 2020: \$529), and had a deficit of \$6,211 as at June 30, 2021 (December 31, 2020: \$5,050).

While the Corporation has been able to demonstrate the ability to raise capital to fund its operations, the Corporation has not yet been able to generate the sales volumes required to create positive cash flows from operations. Whether and when the Corporation can generate sufficient operating cash flows to pay for its expenditures and settle its obligations as they fall due after June 30, 2021, is uncertain.

The Corporation considers the items included in capital to include shareholders' equity (deficiency) and convertible debentures. The Corporation manages its capital structure and makes adjustments to it in light of changes in economic and business conditions, financing environment and the risk characteristics of the underlying assets. In order to maintain or adjust its capital structure, the Corporation may issue new shares, new debt, or scale back the size and nature of its operations. The Corporation is not subject to externally imposed capital requirements.

Management regularly reviews its level of capital resources and actively manages its affairs. This review will consider factors such as the current economic environment, changes in demand for the Corporation's services, capital spending requirements, foreign exchange rates, working capital needs, and profitability of the Corporation's operations, any of which could materially affect the Corporation's ability to meet its obligations.

Additional financing may be necessary in a variety of circumstances, including the requirement of working capital to ramp up operations, the occurrence of adverse circumstances, fluctuations in foreign currency translation, or the decision to expand geographically into new markets or by acquisition. In addition, in order to maintain or adjust its capital structure, the Corporation may issue new shares, new debt, or scale back the size and nature of its operations.

It is anticipated that the financing may be raised by bank debt, other forms of debt, or the issuance of equity. It is possible that such financing will not be available, or if available, will not be available on favorable terms.

## SHAREHOLDERS' EQUITY

### Issued and Outstanding

Number of common shares	Issued
Balance as at December 31, 2019	68,633,663
Shares issued on conversion of restricted share units	645,653
Balance as at December 31, 2020	69,279,316
Shares issued on exercise of stock options	1,600,000
Shares issued on conversion of restricted share units	143,750
Balance as at June 30, 2021 and August 19, 2021	71,023,066

### Common shares

At June 30, 2021, the Corporation was authorized to issue an unlimited number of common shares without par value. The holders of common shares are entitled to one vote per share and all shares rank equally with regard to the Corporation's residual assets.

### Contributed surplus

The contributed surplus included in the Shareholders' Deficiency section of the Statement of Financial Position comprises of private placement proceeds allocated to unexercised share purchase warrants, unexercised stock options, restricted share units, and all share-based payment transactions that do not involve the issuance of shares.

### Warrants

As part of the 2021 Debenture financing, the Corporation issued to the holder warrants to acquire 12,000,000 common shares, exercisable at any time on or prior to March 5, 2026. Each warrant is exercisable into one common share at an exercise price of \$0.25 per common share.

### Options

The Corporation has adopted a stock option plan whereby a maximum of 10% of the issued and outstanding Shares, from time to time, may be reserved for issuance pursuant to the exercise of options and the issuance of Restricted Share Units. Under the terms of the stock option plan, options may be granted only to: (i) employees, officers, directors, and consultants of the Corporation; and (ii) employees, officers, directors, and consultants of an affiliate of the Corporation.

During the year ended December 31, 2020, 600,000 stock options were granted, and 2,067,500 stock options were forfeited. The share price during the year ended December 31, 2020 averaged \$0.26 per common share.

During the six-month period ended June 30, 2021, the Corporation granted 1,100,000 options, 1,600,000 stock options were exercised, and 862,500 stock options were forfeited. The share price during the six-month period ended June 30, 2021 averaged \$0.28 per common share.

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As at June 30, 2021, 1,000,000 stock options were exercisable (December 31, 2020: 2,600,000).

### **Restricted Share Unit Plan**

The Corporation has a Restricted Share Unit plan (“RSU Plan”), under which it can grant restricted share units (“RSUs”) to directors and management.

On December 1, 2020, the Corporation granted RSUs to each of its three independent directors (the “2020 RSU Recipients”). In aggregate, 493,750 RSUs were granted. These grants represented compensation to the 2020 RSU Recipients for their respective service to the Corporation as Directors. Each RSU represents the right to receive one common share of the Corporation upon vesting.

On June 28, 2021, 143,750 RSUs were converted and the remaining RSUs granted on December 1, 2020 will vest on September 1, 2021, subject to the terms and conditions set forth in the RSU Plan. The RSUs are valued at \$0.24 per RSU, being the Corporation’s common share price on the issuance date.

### **LOAN PAYABLE**

#### **Canadian Emergency Business Account (“CEBA”) Loan**

During the year ended December 31, 2020, the Corporation was approved for repayable financing of a \$40 operating line of credit under the government of Canada’s CEBA loan program (“CEBA Loan 1”), bearing interest at 0%.

During the six-month period ended June 30, 2021, the Corporation was approved for repayable financing of an additional \$20 operating line of credit under the second phase of the CEBA loan program (“CEBA Loan 2”), also bearing interest at 0%.

The terms of the CEBA Loan 1 and CEBA Loan 2 are as follows:

- In January 2021 both lines of credit automatically converted to two-year term loans bearing interest at 0%, to be repaid on December 31, 2022. There is the option to extend the loans by three years on December 31, 2022, and if this extension is exercised, the term loans will mature on December 31, 2025, at which time the balance must be repaid in full.
- Both loans are interest-free until January 1, 2023. Commencing January 1, 2023, interest accrues on the outstanding balance at a rate of 5% per annum, payable monthly on the last day of each month.
- If the balance of the loans are repaid in full on or before December 31, 2022, \$10 of each of the term loans will be forgiven (for a total of \$20).

CEBA Loan 1 of \$40 was initially recorded at the fair value of \$15. The \$10 forgivable portion has been recorded as a government grant. The initial discount of \$15 on recognition of the loan at fair value has been recorded as deferred revenue and the grant recognition and related accretion has been included in government grants and interest expense in the statements of operations and comprehensive loss.

CEBA Loan 2 of \$20 was initially recorded at the fair value of \$5. The \$10 forgivable portion has been recorded as a government grant. The initial discount of \$5 on recognition of the loan at fair value has been recorded as deferred revenue and the grant recognition and related accretion has been included in government grants and interest expense in the statements of operations and comprehensive loss.

## CONVERTIBLE DEBENTURES

### 2018 Convertible debentures

During the year ended December 31, 2018, the Corporation issued the 2018 Debentures of \$3,050 with a five-year maturity date. The debentures may be extended beyond the maturity date by the holder, in which case the debentures will become due 12 months after receiving notice from the holder. During the year ended December 31, 2018, a convertible debenture holder elected to convert their \$50 of convertible debentures plus accrued interest payable into 100,293 common shares.

<b>As at</b>	<b>June 30,</b>	December 31,
(\$ Cdn thousands)	<b>2021</b>	2020
Balance at the beginning of period	<b>2,662</b>	2,295
Interest accrued during the period	<b>177</b>	322
Unrealized loss (gain) on convertible debentures	<b>136</b>	45
<b>Balance at the end of the period</b>	<b>2,975</b>	2,662

The 2018 Debentures are hybrid contracts with multiple embedded derivatives. The Corporation has measured the entire hybrid contract at fair value with adjustments recorded to finance costs in the statements of operations and comprehensive loss. The face value of \$3,000, plus all accrued interest, will be repayable on maturity, if not converted prior to this date.

The face value of the 2018 Debentures reconciles to the balance as at June 30, 2021 and December 31, 2020 as follows:

<b>As at</b>	<b>June 30,</b>	December 31,
(\$ Cdn thousands)	<b>2021</b>	2020
Face value	<b>3,000</b>	3,000
Interest accrued	<b>927</b>	750
Face value plus accrued interest	<b>3,927</b>	3,750
Fair value adjustment	<b>(952)</b>	45
<b>Balance at the end of the period</b>	<b>2,975</b>	3,795

The 2018 Debentures have a variable interest charge based on the Corporation's cash burn rate.

The interest rate is the lesser of:

- a. 8.50% plus (0.50% x number of Shortfall Months) compounded quarterly; or
- b. 12.00% per annum compounded quarterly

where Shortfall Months is equal to (twelve-(ending cash balance/three month average cash burn)).

During the six-months period ended June 30, 2021, the Corporation's monthly cash burn rate was such that the accrued annual rate of interest payable was between 8.50% and 11.60% (compounded quarterly). The \$3,000 outstanding in 2018 Debentures can be converted into common shares at the election of debenture holders at any time at a conversion price of \$0.51 per share.

As at June 30, 2021, the unpaid accrued interest payable was \$927 (December 31, 2020: \$750). The unpaid accrued interest payable can be converted to shares, at the election of the debenture holders, at any time, at the volume-

weighted average trading price per share for common shares over ten consecutive trading days ending on the trading day before the conversion date.

The 2018 Debentures are convertible at the option of the Corporation if, on or before the five-year maturity date, in any two consecutive calendar quarters the Corporation shall have achieved all of the following criteria:

- a. positive EBITDA normalized for abnormal items;
- b. revenue equal to at least \$0.023 per issued and outstanding Common Share;
- c. the volume-weighted average trading price per share for Common Shares for the prior three months is equal to at least \$0.41 per share; and
- d. subscription-based recurring revenue equal to at least \$0.017 per issued and outstanding Common Share.

The Corporation can redeem the 2018 Debentures upon 30 days' notice prior to the maturity by paying the outstanding face value of the principal in cash and the outstanding interest in common shares at the current market price, as well as a prepayment penalty equal to 50% of the lost interest from the prepayment date to the maturity date.

The fair value of the 2018 Debentures is determined using a probability-weighted multi-scenario model based on the host liability and embedded derivatives of the instrument. The most significant factors in the computation of the fair value of this financial instrument as at June 30, 2021 are the fair values of the host liability and the conversion feature. The fair value of the host liability is determined using a discount rate of 39.4% (2020: 39.4%), interest payments of 8.5% to 12.0%, and a remaining expected term of 1.9 years (December 31, 2020: 2.4 years), as at June 30, 2021. The fair value of the conversion feature is determined using a Black-Scholes model with a volatility of 125% (2020: 125%), a risk-free rate of interest of 0.45% (December 31, 2020: 0.20%), a stock price of \$0.23 (2020: \$0.25) per share, and a remaining expected life of 1.9 years (2020: 2.4 years), as at June 30, 2021.

Sensitivity analysis:

A \$0.01 increase in the share price within the Black-Scholes model would result in an increase in the fair value of the outstanding principal of the 2018 Debentures of \$39. A 1% increase in the discount rate would result in a decrease in the fair value of the outstanding principal 2018 Debentures of \$33. Comparable decreases in each of the share price and discount rate would result in a comparable opposite change in the fair value of the outstanding principal of the 2018 Debentures.

## 2021 Convertible debenture

<b>As at</b>	<b>June 30,</b>
<b>(\$ Cdn thousands)</b>	<b>2021</b>
Face value	<b>3,000</b>
Financing costs	<b>62</b>
Proceeds from convertible debenture, net of financing costs	<b>2,938</b>
Allocation - convertible debenture - equity portion	<b>(1,294)</b>
Allocation - convertible debenture - warrant portion	<b>(1,186)</b>
Accretion on convertible debenture	<b>59</b>
Balance at the end of the period	<b>517</b>

On March 5, 2021, the Corporation issued the 2021 Debenture for \$3,000. The 2021 Debenture is non-interest bearing, with a maturity date of March 5, 2026. The 2021 Debenture is convertible to common shares at a conversion



price of \$0.23 per share. In addition, the purchaser received 12,000,000 warrants that can each be converted to one common share of the Corporation at a purchase price of \$0.25 per share. The warrants expire March 5, 2026. The Corporation incurred \$62 in financing costs related to legal and transaction processing charges.

In accordance with IAS 32, the Corporation has determined the fair value of the liability by discounting the expected future cash flows of the liability component at a market rate of interest of 45.0% for non-convertible debt, resulting in a liability value of \$517 as at June 30, 2021.

The residual value assigned to equity is bifurcated between the conversion feature of the 2021 Debenture and the detachable warrant based on their respective values as determined by the Black-Scholes option pricing model. \$1,186 was assigned to the detachable warrants and \$1,294 was assigned to the equity conversion feature of the 2021 Debenture.

## **COMMITMENTS AND CONTINGENCIES**

### **Commitments**

As at June 30, 2021, in the normal course of business, other than in relation to the convertible debentures, the Corporation has no material obligations to make future payments, representing contracts and other commitments that are known and committed.

## **OFF-BALANCE SHEET ARRANGEMENTS**

The Corporation has no material undisclosed off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our results of operations, financial condition, revenues or expenses, liquidity, capital expenditures or capital resources.

## **RISK FACTORS**

The business of Katapult is subject to risk and uncertainties. Prior to making any investment decisions regarding Katapult, investors should carefully consider, among other things, the risks described herein (including risks and uncertainties listed in the Forward-Looking Statements section in this MD&A).

Management defines risk as the evaluation of probability that an event might happen in the future that could negatively affect the financial condition and/or results of operations of the Corporation. The risks that could affect the Corporation are described below; however, they do not constitute an exhaustive list of all possible risks which may impact the Corporation as there may be additional risks of which management is currently unaware. As it is difficult to predict whether any risk will happen or its related consequences, the actual effect of any risk on the business could be materially different from what is anticipated.

In the normal course of business, the Corporation's operations are influenced by a number of internal and external factors and are exposed to risks and uncertainties that can affect its business, financial condition and operating results.

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The activities of the Corporation are subject to, but not limited to, the following ongoing risks - which are more fully described in the Corporation's MD&A for the year ended December 31, 2020:

Financial Risks

- Fluctuation in Quarterly Results
- Financing Risks
- Economic Conditions
- History of Operating Losses
- Negative Operating Cash Flow
- Our levels of indebtedness can have negative implications for our shareholders
- Control of the Corporation
- Market Price of the Common Shares
- Dilution
- Dividend Policy
- Conflicts of Interest
- Pandemic Diseases – COVID-19 Response

Risks Relating to the Corporation's Technology

- Cyber Security Risks
- Risks Related to Cloud Based Solutions
- Failure to Continue to Adapt to Technological Change and New Product Development
- Risk of Defects in the Corporation's Solution
- Competition
- Protection of Intellectual Property

Risks Related to the Corporation's Operations

- Ability to Manage Future Growth
- Risks Associated with Market Expansion
- Dependence on Market Growth
- Lengthy Sales and Implementation Cycle
- Dependence on Management and Key Employees
- Risk Associated with a Change in the Corporation's Pricing Model
- Operational Service Risk
- Dependence on Partners
- Delay or Failure to Realize Anticipated Benefits of Key Account Installations
- Use of the Corporation's Services for Improper or Illegal Purposes
- Uninsured and Underinsured Losses
- Misconduct and/or Errors by Employees and Service Providers
- Insurance and Uninsured Risks

Legal and Regulatory Risks

- Privacy Concerns and Legislation
- Regulatory Environment

## CORPORATE INFORMATION

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### Directors

Brian Craig  
Chair of the Board

Jeff Dawson  
Audit Committee Chair

Gord Breese  
Director and Chief Executive Officer

Brock Murray  
Director and Head of Global Development

Pheak Meas  
Director and Head of UX and Design

### Officers

Gord Breese  
Chief Executive Officer

Karim Teja, CPA, CGA  
Chief Financial Officer

Ben Cadieux  
Chief Technology Officer

Pheak Meas  
Head of UX and Design

Brock Murray  
Head of Global Development

William Van Horne  
Corporate Secretary