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# Q3 2021

## Management Discussion & Analysis

Katapult Technology Corp.

September 30, 2021

The discussion and analysis of the financial condition and results of operations of the Corporation is prepared as at November 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 nine-month periods ended September 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 nine-month periods ended September 30, 2021, is dated November 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 nine-month periods ended September 30, 2021. The MD&A should be read in conjunction with the unaudited condensed interim financial statements and related notes for the three- and nine-month periods ended September 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 |       | Nine months ended |         |
|--|--------------------|-------|-------------------|---------|
|  | September 30,      |       | September 30,     |         |
|  | 2021               | 2020  | 2021              | 2020    |
| Net loss   | (648)              | (768) | (1,809)           | (2,116) |
| Plus:  |                    |       |                   |         |
| Depreciation and amortization                    | 8                  | 8     | 23                | 22      |
| Finance costs                                    | 140                | 84    | 394               | 254     |
| Unrealized (gain) loss on convertible debentures | 59                 | 216   | 195               | 563     |
| Foreign exchange (gain) loss                     | (14)               | 9     | 5                 | (14)    |
| Share-based payments                             | 65                 | 65    | 124               | 338     |
| Other income                                     | (25)               | (1)   | (52)              | (26)    |
| Adjusted EBITDA                                  | (415)              | (387) | (1,120)           | (979)   |

“**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<br>(\$ Cdn thousands) - unaudited  | September 30,<br>2021 | December 31,<br>2020 | Increase (decrease)<br>in working capital |
|--|-----------------------|----------------------|---|
| Current assets                           |                       |                      |   |
| Cash and cash equivalents                | 3,096                 | 865                  | 2,231                                     |
| Accounts receivable                      | 15                    | 40                   | (25)                                      |
| Prepaid expenses                         | 16                    | 10                   | 6   |
| Total current assets                     | <b>3,127</b>          | 915                  | 2,212                                     |
| Current liabilities                      |                       |                      |   |
| Accounts payable and accrued liabilities | 234                   | 221                  | 13  |
| Deferred revenue                         | 628                   | 433                  | 195                                       |
| Current portion of lease obligation      | 30                    | 33                   | (3)                                       |
| Total current liabilities                | <b>892</b>            | 687                  | 205                                       |
| <b>Working capital</b>                   | <b>2,235</b>          | 228                  | 2,007                                     |

**“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 |       | Nine months ended |         |
|--|--------------------|-------|-------------------|---------|
|  | September 30,      |       | September 30,     |         |
|  | 2021               | 2020  | 2021              | 2020    |
| Subscription revenue <sup>(1)</sup>        | 427                | 301   | 1,214             | 959     |
| Investment services revenue <sup>(1)</sup> | -                  | -     | 9                 | -       |
| Integration revenue <sup>(1)</sup>         | -                  | -     | 10                | 31      |
| Total revenue                              | 427                | 301   | 1,233             | 990     |
| Gross profit <sup>(1)</sup>                | 340                | 232   | 980               | 780     |
| Gross profit percentage <sup>(1)</sup>     | 79.6%              | 77.1% | 79.5%             | 78.8%   |
| Adjusted EBITDA <sup>(1)</sup>             | (415)              | (387) | (1,120)           | (979)   |
| Total comprehensive income (loss)          | (648)              | (768) | (1,809)           | (2,116) |

### Revenue

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 41.9% and 26.6% for the three- and nine-months ended September 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. Once fully rolled out, this revenue is expected to be recurring in nature; however, it will vary in size and timing as it is based on the volume and characteristics of the transactions processed.

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, the level of customer-facing customization required and issues needing to be addressed to make the client ready to onboard. The Corporation reported integration revenue of \$10 in the second quarter of 2021 and \$31 in the first quarter of 2021.

### **Continued investment impacts Adjusted EBITDA and Net Income**

The gross profit percentage was 79.6% for the three-month period ended September 30, 2021 (three-month period ended September 30, 2020: 77.1%). The Corporation has maintained a gross profit percentage of over 70.0% since the fourth quarter of 2017.

### **Adjusted EBITDA and Net Income**

Adjusted EBITDA losses increased to \$415 in the third quarter of 2021 (2020: \$387) and \$1,120 for the nine-month period ended September 30, 2021 (2020: \$979). The increase is mostly due to the higher salaries, subcontractors, and benefits expense as the Corporation continues to grow its base of key employees. The increased expense was partially offset by increased revenue. The Corporation's net loss and comprehensive loss decreased to \$648 and \$1,809 for the three- and nine-month period ended September 30, 2021 compared to \$768 and \$2,116 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").

### **THIRD QUARTER 2021 HIGHLIGHTS**

#### **Katapult Customer Surpasses \$500 Million Deal Volume Milestone**

On September 23, 2021, Katapult announced that a customer, who is a North American investment dealer, recently surpassed \$500 million in private placement deal flow on the Katapult 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 is significantly accelerating product development and feature enhancements to re-invent traditional private capital markets. With a customer roster which includes TMX Group, Canaccord Genuity, Cormark Securities and Raymond James, Katapult is well positioned to continue to expand its North American market position as the leading SaaS platform for alternative investments and private capital deal flow.

## CORPORATE PROFILE

### Organization

Katapult 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. Katapult 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 |       | Nine months ended |       |
|--|--------------------|-------|-------------------|-------|
|  | September 30,      |       | September 30,     |       |
|  | 2021               | 2020  | 2021              | 2020  |
| Subscription revenue <sup>(1)</sup>        | 427                | 301   | 1,214             | 959   |
| Investment services revenue <sup>(1)</sup> | -                  | -     | 9                 | -     |
| Integration revenue <sup>(1)</sup>         | -                  | -     | 10                | 31    |
|  | 427                | 301   | 1,233             | 990   |
| Cost of revenue                            | 87                 | 69    | 253               | 210   |
| Gross profit <sup>(1)</sup>                | 340                | 232   | 980               | 780   |
| Gross profit percentage <sup>(1)</sup>     | 79.6%              | 77.1% | 79.5%             | 78.8% |

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 41.9% and 26.6% for the three- and nine-months ended September 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. Once fully rolled out, this revenue is expected to be recurring in nature; however, it will vary in size and timing as it is based on the volume and characteristics of the transactions processed.

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 Corporation reported integration revenue of \$10 in the second quarter of 2021 and \$31 in the first quarter of 2021.

The gross profit percentage was 79.6% and 79.5% for the three- and nine-month period ended September 30, 2021 (2020: 77.1% and 78.8%).

#### SELLING, GENERAL, AND ADMINISTRATIVE

| (\$ Cdn thousands)                             | Three months ended    |      | Nine months ended     |       |
|--|-----------------------|------|-----------------------|-------|
|  | September 30,<br>2021 | 2020 | September 30,<br>2021 | 2020  |
| Selling, general, and administrative           |                       |      |                       |       |
| less share-based payments and bad debt expense | <b>454</b>            | 371  | <b>1,411</b>          | 1,049 |
| Bad debt (recovery) expense                    | <b>(2)</b>            | 58   | <b>(9)</b>            | 119   |
| Share-based payments                           | <b>65</b>             | 65   | <b>124</b>            | 338   |
| Selling, general, and administrative           | <b>517</b>            | 494  | <b>1,526</b>          | 1,506 |

For the three- and nine-month period ended September 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 key hires and higher sales and marketing costs.

During the quarter, the Corporation recovered \$2 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 \$65 (2020: \$65). The expense is driven by the issuance and vesting timing of restricted share units and stock options.



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**RESEARCH AND DEVELOPMENT**


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| (\$ Cdn thousands)       | Three months ended |      | Nine months ended |      |
|--------------------------|--------------------|------|-------------------|------|
|                          | September 30,      |      | September 30,     |      |
|                          | 2021               | 2020 | 2021              | 2020 |
| Research and development | <b>303</b>         | 190  | <b>698</b>        | 591  |

Research and development (R&D) expenses are higher during the current quarter and year-to-date as the Company continues to enhance its product offering and build out its product road-map.

**FOREIGN EXCHANGE**


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| (\$ Cdn thousands)           | Three months ended |      | Nine months ended |      |
|------------------------------|--------------------|------|-------------------|------|
|                              | September 30,      |      | September 30,     |      |
|                              | 2021               | 2020 | 2021              | 2020 |
| Foreign exchange (gain) loss | <b>(14)</b>        | 9    | <b>5</b>          | (14) |

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**


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| (\$ Cdn thousands)                        | Three months ended |      | Nine months ended |      |
|---|--------------------|------|-------------------|------|
|   | September 30,      |      | September 30,     |      |
|   | 2021               | 2020 | 2021              | 2020 |
| Bank related charges                      | <b>3</b>           | 5    | <b>11</b>         | 19   |
| Interest on 2018 Debentures               | <b>83</b>          | 77   | <b>260</b>        | 225  |
| Accretion on 2021 Debenture               | <b>51</b>          | -    | <b>111</b>        | -    |
| Interest on lease obligation              | <b>1</b>           | 2    | <b>6</b>          | 10   |
| Other interest and charges                | <b>2</b>           | -    | <b>6</b>          | -    |
| Finance costs                             | <b>140</b>         | 84   | <b>394</b>        | 254  |
| Unrealized (gain) loss on 2018 Debentures | <b>59</b>          | 216  | <b>195</b>        | 563  |

Finance costs increased for the three- and nine-month period ended September 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 which results in the ongoing recognition of a non-cash accretion expense.

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 |      | Nine months ended |      |
|---------------------------------|--------------------|------|-------------------|------|
|                                 | September 30,      |      | September 30,     |      |
|                                 | 2021               | 2020 | 2021              | 2020 |
| Interest and other income       | (1)                | (1)  | (4)               | (11) |
| Government grants               | (24)               | -    | (48)              | (15) |
| Total other income and expenses | (25)               | (1)  | (52)              | (26) |

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

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

| (\$ Cdn thousands)                       | Three months ended |       | Nine months ended |         |
|--|--------------------|-------|-------------------|---------|
|  | September 30,      |       | September 30,     |         |
|  | 2021               | 2020  | 2021              | 2020    |
| Adjusted EBITDA <sup>(1)</sup>           | (415)              | (387) | (1,120)           | (979)   |
| Total comprehensive income (loss)        | (648)              | (768) | (1,809)           | (2,116) |
| Funds used in operations before change   |                    |       |                   |         |
| in non-cash working capital              | (393)              | (391) | (1,079)           | (972)   |
| Total funds used in operating activities | (393)              | (186) | (877)             | (693)   |

Adjusted EBITDA losses increased to \$415 in the third quarter of 2021 (2020: \$387) and \$1,120 for the nine-month period ended September 30, 2021 (2020: \$979). 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 \$648 and \$1,809 for the three- and nine-month period ended September 30, 2021 compared to \$768 and \$2,116 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 slightly for the three- and nine-month period ended September 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  |       |
|---|--------------|-------|-------|-------|-------|-------|-------|-------|
|   | Q3           | Q2    | Q1    | Q4    | Q3    | Q2    | Q1    | Q4    |
| Subscription revenue <sup>(1)</sup>               | <b>427</b>   | 409   | 378   | 329   | 301   | 329   | 329   | 329   |
| Investment services revenue <sup>(1)</sup>        | -            | 4     | 5     | -     | -     | -     | -     | -     |
| Integration revenue <sup>(1)</sup>                | -            | 10    | -     | -     | -     | -     | 31    | 53    |
| Total revenue                                     | <b>427</b>   | 423   | 383   | 329   | 301   | 329   | 360   | 382   |
| Gross profit <sup>(1)</sup>                       | <b>340</b>   | 335   | 305   | 253   | 232   | 253   | 295   | 312   |
| Gross profit - percentage <sup>(1)</sup>          | <b>79.6%</b> | 79.2% | 79.6% | 76.9% | 77.1% | 76.9% | 81.9% | 81.7% |
| Selling, general, and administrative              | <b>517</b>   | 609   | 400   | 223   | 494   | 495   | 517   | 509   |
| Research and development                          | <b>303</b>   | 205   | 190   | 195   | 190   | 219   | 182   | 161   |
| Adjusted EBITDA <sup>(1)</sup>                    | <b>(415)</b> | (376) | (329) | (289) | (387) | (325) | (267) | (219) |
| Net income (loss) and comprehensive income (loss) | <b>(648)</b> | (323) | (838) | 239   | (768) | (620) | (728) | 709   |

## LIQUIDITY AND CAPITAL RESOURCES

### Working capital

| As at                                    | September 30, | December 31, | Increase (decrease) |
|--|---------------|--------------|---------------------|
| (\$ Cdn thousands) - unaudited           | 2021          | 2020         | in working capital  |
| Current assets                           |               |              |                     |
| Cash and cash equivalents                | <b>3,096</b>  | 865          | 2,231               |
| Accounts receivable                      | <b>15</b>     | 40           | (25)                |
| Prepaid expenses                         | <b>16</b>     | 10           | 6                   |
| Total current assets                     | <b>3,127</b>  | 915          | 2,212               |
| Current liabilities                      |               |              |                     |
| Accounts payable and accrued liabilities | <b>234</b>    | 221          | 13                  |
| Deferred revenue                         | <b>628</b>    | 433          | 195                 |
| Current portion of lease obligation      | <b>30</b>     | 33           | (3)                 |
| Total current liabilities                | <b>892</b>    | 687          | 205                 |
| <b>Working capital <sup>(1)</sup></b>    | <b>2,235</b>  | 228          | 2,007               |

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

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## Liquidity

As at September 30, 2021, the Corporation's cash and cash equivalents were \$3,096 (December 31, 2020: \$865). The Corporation had a positive net working capital position of \$2,235 (December 31, 2020: \$228). The Corporation had a net loss for the period ended September 30, 2021 of \$1,809 (September 30, 2020: \$2,116), used cash in operations of \$877 (September 30, 2020: \$693), and had a deficit of \$6,859 as at September 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 September 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

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| <b>Number of common shares</b>                         | <b>Issued</b> |
|--|---------------|
| 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             | 1,750,000     |
| Shares issued on conversion of restricted share units  | 493,750       |
| Balance as at September 30, 2021 and November 19, 2021 | 71,523,066    |

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### **Common shares**

At September 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 nine-month period ended September 30, 2021, the Corporation granted 1,200,000 options, 1,750,000 stock options were exercised, and 862,500 stock options were forfeited. The share price during the nine-month period ended September 30, 2021 averaged \$0.25 per common share.

As at September 30, 2021, 1,256,250 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 converted on September 1, 2021 in accordance with the terms of the 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 nine-month period ended September 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.

| As at   | September 30, | December 31, |
|---|---------------|--------------|
| (\$ Cdn thousands)  | 2021          | 2020         |
| Balance at the beginning of period                            | 2,662         | 2,295        |
| Interest accrued during the period                            | 260           | 322          |
| Unrealized loss (gain) on convertible debentures              | 195           | 45           |
| Balance at the end of the period                              | 3,117         | 2,662        |
| Face value of the convertible debentures at end of the period | 3,000         | 3,000        |

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 September 30, 2021 and December 31, 2020 as follows:

| <b>As at</b>                     | <b>September 30,</b> | December 31, |
|----------------------------------|----------------------|--------------|
| (\$ Cdn thousands)               | <b>2021</b>          | 2020         |
| Face value                       | <b>3,000</b>         | 3,000        |
| Interest accrued                 | <b>1,010</b>         | 750          |
| Face value plus accrued interest | <b>4,010</b>         | 3,750        |
| Fair value adjustment            | <b>(893)</b>         | 45           |
| Balance at the end of the period | <b>3,117</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 nine-months period ended September 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 September 30, 2021, the unpaid accrued interest payable was \$1,010 (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 September 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 1.7 years (December 31, 2020: 2.4 years), as at September 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 0.53% (December 31, 2020: 0.20%), a stock price of \$0.23 (2020: \$0.25) per share, and a remaining expected life of 1.7 years (2020: 2.4 years), as at September 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 \$36. A 1% increase in the discount rate would result in a decrease in the fair value of the outstanding principal 2018 Debentures of \$31. 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

| As at<br>(\$ Cdn thousands)                                 | September 30,<br>2021 |
|---|-----------------------|
| Face value  | 3,000                 |
| Financing costs   | 62                    |
| Proceeds from convertible debenture, net of financing costs | 2,938                 |
| Allocation - convertible debenture - equity portion         | (1,294)               |
| Allocation - convertible debenture - warrant portion        | (1,186)               |
| Accretion on convertible debenture                          | 111                   |
| Balance at the end of the period                            | 569                   |

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 \$569 as at September 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 September 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.

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

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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

Brock Murray  
Director and Head of Global Development

Jeff Dawson  
Audit Committee Chair

Pheak Meas  
Director and Head of UX and Design

Gord Breese  
Director and Chief Executive Officer

### Officers

Gord Breese  
Chief Executive Officer

Pheak Meas  
Head of UX and Design

Karim Teja, CPA, CGA  
Chief Financial Officer

Brock Murray  
Head of Global Development

Ben Cadieux  
Chief Technology Officer

William Van Horne  
Corporate Secretary