2019

Management Discussion & Analysis

Katipult Technology Corp. December 31, 2019

MANAGEMENT DISCUSSION AND ANALYSIS

The following management discussion and analysis (MD&A) of the financial condition and results of operations is intended to help the reader understand the current and prospective financial position and operating results of Katipult Technology Corp. (the “Corporation” or “Katipult”). The MD&A discusses the operating and financial results for the three and twelve months ended December 31, 2019, is dated April 21, 2020, and takes into consideration information available up to that date.

The MD&A is based on the annual financial statements for the year ended December 31, 2019. The MD&A should be read in conjunction with the annual financial statements and related notes for the year ended December 31, 2019, prepared in accordance with International Financial Reporting Standards (IFRS). The Corporation's audited 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 Katipult’s website (www.katipult.com) and all previous public filings, are available through SEDAR (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 performance and operations. 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.

FINANCIAL AND OPERATION HIGHLIGHTS

For the year ended December 31, ($ Cdn thousands)	2019	2018	2017
Subscription revenue [(1)]	**1,304**	702	491
Integration revenue [(1)]	**312**	523	645
Total revenue	**1,616**	1,225	1,136
Gross profit [(1)]	**1,306**	903	808
Gross profit - percentage [(1)]	**80.8%**	73.7%	71.1%
Adjusted EBITDA [(1)]	**(923)**	(1,611)	(614)
Net loss and comprehensive loss	**(306)**	(2,073)	(1,124)

85.8% Year over Year Increase in Subscription Revenue [(1)]

Subscription revenue increased 85.8% in 2019 to $1,304 compared to $702 in the prior year. The Corporation continues to expand the subscription base by raising awareness in the marketplace amongst the potential customers. The Corporation has secured a number of pivotal clients in 2019, which is the result of the successful execution of its deliberate strategy to move up market and to demonstrate its value proposition in the enterprise market. In the fourth quarter of 2019 the Corporation recorded subscription revenue of $329 compared to $251 in the fourth quarter of 2018.

Integration revenue fluctuates from quarter-to-quarter as it is dependent on the number of new customers brought on in the quarter and the requested level of services. As the Katipult product functionality matures and becomes more scalable the Corporation will continue to reduce its emphasis on non-recurring integration revenue. Integration revenue was lower in 2019 as compared to 2018 as the Corporation has shifted its sales posture from responding to market inquiries to actively pursuing larger, more established clients while also focusing on subscription revenue rather than non-recurring integration revenue.

Continued investment and growth impacts Earnings and Net earnings [(1)]

The gross profit as a percentage of sales increased to 80.8% in 2019 (2018: 73.7%). The Corporation has maintained a gross profit percentage over 70% for the past nine quarters. The higher gross profit in 2019 is the result of increased recurring revenue and streamlined service costs. The Corporation continues to put effort into raising awareness in the marketplace amongst the potential customers and to shape its management team with new and existing talent. Furthermore, the Corporation continually evaluates operations as it seeks to drive efficient operations. These efforts resulted in some reduction of expense that contributed to reduced the losses in 2019.

The total research and development costs decreased by 10.5% in 2019 to $817 compared to $913 in the prior year. The Corporation continues to strategically and measuredly invest in its research and development efforts, with a focus on enhancing scalability and adding additional sophistication, features and controls required by the larger market players.

The Corporation's selling, general, and administrative expenses were higher by $29 in 2019 due to higher sales and marketing initiatives and higher share-based payments incurred compared to 2018. Those additional costs were partially offset by higher revenues and reduction in salaries, subcontractors and external services costs in 2019. Adjusted EBITDA in 2019 improved to a loss of $923 compared to the prior year (2018: loss of $1,611).

[(1)] See Non-GAAP measures and additional GAAP measures

The Corporation's net loss and comprehensive loss in 2019 amounted to $306, compared to $2,073 in 2018. The decrease is mainly due to a reduction in the recognised liability relating to the Corporation's outstanding convertible debentures, to higher recurring revenue, improved gross profit, and the Corporation's ongoing efforts to drive efficient operations. However, the outstanding principal of the convertible debentures remained unchanged and the amount outstanding, which may fall to be repaid in full in certain circumstances, is significantly greater than the amount recognised as a liability on the statement of financial position. The Corporation incurred additional financing costs of $326 from interest costs related to the convertible debentures.

Changes to Management and Directors

On May 15, 2019, the Corporation appointed Michael D. Sharpe as Board Secretary.

On September 16, 2019, the Corporation appointed Ben Cadieux (formerly the Company's Chief Information Officer) to the position of Chief Technology Officer (CTO). At the same time, former CTO, Doug Mclean, who had fulfilled this role since the Corporation's listing in 2017, stepped down as an officer, but remains with the Corporation in a part time capacity. In addition, effective September 3, 2019, the Corporation appointed Raul Nemes to the new role of VP, Product.

At the AGM held on August 12, 2019, Messrs. David Jaques and Paul Sun did not stand for re-election as Directors. Accordingly, the size of the Board reduced to five (from seven) with the Independent Directors being Marcus Shapiro, Jeff Dawson and Brian Craig, and the Executive Directors being Katipult's Co-Founders, Brock Murray and Pheak Meas.

Subsequent to year-end, on January 6, 2020, the Corporation appointed Gord Breese to the position of President, Chief Executive Officer and Director of the Corporation. Brock Murray, the Corporation's Co-Founder and former President and Chief Executive Officer, was appointed to a new role of Head of Global Development.

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 taking a financially prudent and measured approach in building out its sales and marketing initiatives. Katipult is focusing on fewer client acquisitions but aiming to acquire more established, larger clients, as part of a deliberate strategy at Katipult to move up market, demonstrate our value proposition in the enterprise market and drive subscription revenue growth.

While the Corporation intends to continue investing in research and development initiatives that improve the product's functions, features and end user experience, the focus going forward will be on strengthening and deepening the management team, increasing sales efforts, ensuring a more focused product offer to the market, building brand recognition, continuing to improve the onboarding and customization activities and exploring ways to accelerate the sale-cycle. The Corporation is pursuing initiatives to rationalize and where appropriate, upgrade its technical support and back-office infrastructure so that it can cost-effectively scale and support growth.

Subsequent to year end, on January 30, 2020, the World Health Organization declared the coronavirus outbreak (COVID-19) a “Public Health Emergency of International Concern” and, on March 11, 2020, declared COVID-19 a pandemic. While the impact of COVID-19 has not had a material impact on Katipult’s operations to date, the Corporation is closely monitoring the impact to customers and its stakeholders.

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, defined as revenue less Cost of Revenue expenses, is a useful supplemental measure of operations. Management believes that working capital, defined as current assets less current liabilities, is an 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 may be a more appropriate measure for comparing results from one period to another as Adjusted EBITDA normalizes earnings to exclude certain non-operating and extraordinary amounts. 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 International Financial Reporting Standards (“IFRS”).

CORPORATE PROFILE

Organization

Katipult Technology Corp. (the “Corporation” or “Katipult”) is a provider of an industry leading and award-winning cloud-based software infrastructure for powering the exchange of capital in equity and debt markets. The Corporation was originally incorporated under the British Columbia Business Corporations Act. In the third quarter of 2019, the Corporation filed articles of continuance under the Alberta Business Corporation Act. The continuance was effective October 2, 2019. On December 31, 2019, Katipult amalgamated with its wholly-owned subsidiary. 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 company offering a cloud-based software infrastructure 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 investors, issuers, administrators and auditors, among others. 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 “Software As A Service” (“SaaS”) business model. The SaaS business model is well suited for cloud-based software solutions, especially ones that have a compelling ongoing need, like Katipult’s platform. In exchange for a monthly subscription, customers benefit from software updates, new features and technical support. The Corporation also earns integration revenue from activities including the provision of regulatory consulting, marketing, and the customization services of the Platform, for which one-time charges are made which vary depending on the work involved.

RESULTS OF OPERATIONS

For the year ended December 31, ($ Cdn thousands)	2019	2018	2017
Subscription revenue [1]	**1,304**	702	491
Integration revenue [1]	**312**	523	645
	1,616	1,225	1,136
Cost of revenue	**310**	322	328
Gross profit [1]	**1,306**	903	808
Gross profit - percentage [1]	**80.8%**	73.7%	71.1%

Subscription revenue increased 85.8% in 2019 to $1,304 compared to $702 in the prior year. The Corporation continues to attract interest from potential clients including small and medium sized private equity, private lending, commercial real estate organizations, investment dealers, banks, and brokers and recently has attracted the interest of larger, more established organizations. In the fourth quarter of 2019 the Corporation recorded subscription revenue of $329 compared to $251 in the fourth quarter of 2018.

Integration revenue 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. As the Katipult product functionality matures and becomes more scalable the Corporation will continue to reduce its emphasis on non-recurring integration revenue.

Integration revenue was lower in 2019 as compared to 2018 as the Corporation successfully began transitioning its revenue stream to subscription-based revenue. In addition, the Corporation began focusing on fewer but more established, larger clients. This is part of a deliberate strategy at Katipult to move up market and to demonstrate our value proposition in the enterprise market.

[1] See Non-GAAP measures and additional GAAP measures

SELLING, GENERAL, AND ADMINISTRATIVE

For the year ended December 31, ($ Cdn thousands)	2019	2018	2017
Selling, general, and administrative less share-based payments and bad debt expense	**1,337**	1,494	818
Bad debt expense	**75**	107	169
Share-based payments	**476**	258	41
Selling, general, and administrative	**1,888**	1,859	1,028

For the year ended December 31, 2019, total selling, general and administrative (SG&A) expenses increased by $29, compared to 2018 as a result of the Corporation's incurring additional sales and marketing initiatives and share-based payments offset by lower salaries, subcontractors and other administrative costs relating to the Corporation being a public company for the full year.

The Corporation has improved its bad debt expense in 2019 by targeting more established customers and putting in place processes that mitigate credit risk, including more robust contracts, timelier follow-up, credit checks where practical, and establishing a reserve against revenue for estimated uncollectable invoices. As a result, the total bad debt expense in 2019 reduced to $75 compared to $107 in 2018.

Included in the SG&A expenses is Share-based expense of $476 in the period. The expense is driven by the issuance and timing of restricted share units and the vesting of stock options and restricted share units. This is a non-cash expense.

RESEARCH AND DEVELOPMENT

For the year ended December 31, ($ Cdn thousands)	2019	2018	2017
Research and development	**817**	913	435

Research and development (R&D) expenses for the year ended December 31, 2019 decreased by 10.5% to $817 compared to $913 in 2018. The decrease is the result of the Corporation continually evaluating operations as it seeks to drive efficient operations as well as enhancing the functionality that its clients derive from the Corporation's products and speeding up the onboarding process and allow for larger, scalable deployments while reducing support and maintenance costs.

FINANCE COSTS

For the year ended December 31, ($ Cdn thousands)	**2019**	2018	2017
Bank related charges	**48**	31	19
Interest on convertible debentures	**275**	153	-
Issuance cost of convertible debentures	**-**	65	-
Other interest and charges	**3**	10	4
Finance costs	**326**	259	23
Unrealized gain on convertible debentures	**(1,133)**	-	-

Finance costs have increased in 2019 compared to prior year mainly due to the addition of the interest accrued on convertible debentures in the period. The interest on convertible debentures is a non-cash item as the interest is accrued to maturity. For additional information on the convertible debentures please refer to note 5 of the financial statements.

The convertible 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 profit or loss. As at December 31, 2019, the debenture was valued at $1,867 (December 31, 2018: $3,000) plus interest resulting in a fair value adjustment of $1,133 unrealized gain on convertible debentures to be recognized in 2019. For assumption details on the valuation of the convertible debenture please refer to the Convertible Debenture section of the MD&A.

OTHER INCOME

For the year ended December 31, ($ Cdn thousands)	**2019**	2018	2017
Listing charges	**-**	-	449
Other and interest income	**(115)**	(8)	(1)
Government (grant) repayment	**(182)**	(2)	6
Other income	**(297)**	(10)	454

Other income and expenses contain items that are occur outside of the normal operating activities of the Corporation.

Other income and expenses in the 2019 consist of $97 related to an award related to the 2018 Singapore FinTech Festival, $18 related to the interest earned, $105 related to a grant from the National Research Council of Canada Industrial Research Assistance Program (NRC IPAP), and $77 related to a SR&ED refund.

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

For the year ended December 31, ($ Cdn thousands)	2019	2018	2017
Adjusted EBITDA [1]	**(923)**	(1,611)	(614)
Net loss and comprehensive loss	**(306)**	(2,073)	(1,124)
Funds used in by operations [1]	**(673)**	(1,604)	(642)
Total funds used in operating activities	**(693)**	(1,405)	(506)

The Corporation's net loss and comprehensive loss in 2019 amounted to $306, compared to $2,073 in 2018. The decrease is mainly due to a reduction in the recognised liability relating to the Corporation's outstanding convertible debentures, to higher recurring revenue, improved gross profit, lower selling, general, and administrative less share-based payments and bad debt expenses.

Similarly, Adjusted EBITDA was loss of $923 in 2019 compared to loss of $1,611 in 2018.

The Corporation's funds used in operations decreased in 2019 compared to 2018, mostly the result of the above-noted items.

FINANCIAL AND OPERATING HIGHLIGHTS - QUARTERLY ANALYSIS

	2019				2018			
($ Cdn thousands)	**Q4**	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Subscription revenue [1]	**329**	365	307	303	251	188	137	126
Integration revenue [1]	**53**	22	77	160	24	122	191	186
Total revenue	**382**	387	384	463	275	310	328	312
Gross profit [1]	**312**	311	306	377	201	229	243	230
Gross profit - percentage [1]	**81.7%**	80.4%	79.7%	81.4%	73.1%	73.9%	74.1%	73.7%
Selling, general, and administrative	**509**	438	447	494	569	463	540	287
Research and development	**161**	190	212	254	257	222	250	184
Adjusted EBITDA [1]	**(219)**	(242)	(224)	(238)	(511)	(412)	(471)	(217)
Net loss and comprehensive loss	**709**	(353)	(343)	(319)	(707)	(520)	(596)	(250)

FOURTH QUARTER ANALYSIS

Revenue

Subscription revenue increased 31.1% in the fourth quarter of 2019 to $329 compared the same period prior year (2018: $251). Integration revenue was lower in 2019 as compared to 2018 as the Corporation successfully began transitioning its revenue stream to subscription-based revenue. In addition, the Corporation have been focusing on fewer but more established, larger clients since the latter half of 2018. This is part of a deliberate strategy at Katipult to move up market and to demonstrate our value proposition in the enterprise market.

[1] See Non-GAAP measures and additional GAAP measures

Selling, general, and administration

For the three months ended December 31, 2019, total selling, general and administration (SG&A) expenses decreased by $61, compared to prior period in 2018. The reduced expenditure is due to the Corporation's continued focus on minimizing cost as it seeks to drive efficient operations, offset by an increase in share-based payments.

Research and development

Research and development (R&D) expenses for the three months ended December 31, 2019 decreased by 37.4% to $161 when compared to 2018. The decrease is the result of the Corporation continuing to strategically and measuredly invest in its research and development efforts, with a focus on enhancing scalability and adding additional sophistication, features and controls required by the larger market players.

COMMITMENTS AND CONTINGENCIES

As of December 31, 2019, 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.

LIQUIDITY AND CAPITAL RESOURCES

Working capital

As at **($ Cdn thousands)**	**December 31, 2019**	December 31, 2018	Increase (decrease) in working capital
Current assets			
Cash and cash equivalents	**1,855**	2,539	(684)
Accounts receivable	**102**	67	35
Prepaid expenses	**2**	12	(10)
Total current assetes	**1,959**	2,618	(659)
Current liabilities			
Accounts payable and accrued liabilities	**291**	**392**	(101)
Deferred revenue	**138**	**32**	106
Total current liabilities	**429**	**424**	5
Working capital [(1)]	**1,530**	**2,194**	(664)

The key driver of the change in working capital is the $684 decrease in cash which is dependent on financing offset by the loss.

Liquidity

At December 31, 2019 the Corporation had $1,855, (December 31, 2018: $2,539) cash on hand. In the second quarter of 2018, the Corporation raised capital through the issuance of convertible debentures.

[(1)] See Non-GAAP measures and additional GAAP measures

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 subsequent to December 31, 2019 is uncertain.

The Corporation considers the items included in capital to include shareholders' equity (deficiency). 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 anticipates that its current level of cash flow from operations is sufficient to meet its existing operational obligations but intends to regularly review its level of capital resources and actively manage 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 issue of equity. It is possible that such financing will not be available, or if available, will not be available on favorable terms.

Since December 31, 2019, the outbreak of the novel strain of coronavirus, specifically identified as "COVID-19", has resulted in governments worldwide enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and social distancing, have caused material disruption to businesses globally resulting in an economic slowdown. Global equity markets have experienced significant volatility and weakness. Governments and central banks have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions. The duration and impact of the COVID-19 outbreak is unknown at this time, as is the efficacy of the government and central bank interventions. It is not possible to reliably estimate the length and severity of these developments and the impact on the financial results and condition of the Corporation in future periods.

SHAREHOLDERS' EQUITY

Issued and Outstanding

Number of common shares	Issued
Balance, December 31, 2017	62,277,000
Shares issued on exercise of warrants	5,200,000
Conversion of convertible debentures to common shares	100,293
Shares issued on exercise of stock options	332,500
Balance as at December 31, 2018	67,909,793
Shares issued on conversion of restricted share units	483,870
Shares issued on exercise of stock options	240,000
Balance as at December 31, 2019 and April 21, 2020	68,633,663

Common shares

At December 31, 2019, 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' Equity section of the Statement of Financial Position is comprised 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

In the first quarter of 2018, the Corporation received proceeds of $310 from warrant holders who exercised their warrants and acquired 3,100,000 common shares of the Corporation. In the second quarter of 2018, the Corporation received proceeds of $210 from warrant holders who exercised their warrants and acquired 2,100,000 common shares of the Corporation.

As at December 31, 2018 and December 31, 2019, no warrants were outstanding.

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. 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.

In the second quarter of 2018, 80,000 stock options were exercised, and 500,000 stock options were granted. In the third quarter of 2018, 215,000 stock options were exercised, and no stock options were granted. In the fourth quarter of 2018, 37,500 stock options were exercised, and no stock options were granted. There were no such transactions in the first quarter of 2018. The share price during the year ended December 31, 2018 averaged $0.73 per common share.

In the first and second quarters of 2019 no stock options were exercised or granted. During third quarter of 2019, the Corporation granted 3,300,000 stock options. No options were exercised in the third quarter of 2019. In the fourth quarter of 2019, 240,000 stock options were exercised, the Corporation received $24 in cash and issued 240,000 shares. The share price at the time of exercise was $0.24 and $0.25 per common share. The share price during the year ended December 31, 2019 averaged $0.25 per common share.

As at December 31, 2019, 2,775,833 options were exercisable (December 31, 2018: 2,300,000).

Restricted Share Unit Plan

The Corporation granted restricted share units (the "RSUs") under the Corporation's Restricted Share Unit Plan (the "Plan") to its independent directors (the "2018 RSU Recipients") on October 26, 2018. In aggregate, 443,547 RSUs were granted. These grants represented compensation to the 2018 RSU Recipients for their service on the board of directors of the Corporation and as an incentive mechanism to foster the interest of such persons in the success of the Corporation. Each RSU represented the right to receive one common share of the Corporation upon vesting. The RSUs are valued at $0.63 per RSU, being the value of the Corporation's common share on the issuance date.

On May 16, 2019, the Corporation granted 40,323 RSUs to the Board Secretary. These RSUs are valued at $0.18 per RSU, being the value of the Corporation's common shares on the issuance date.

All the above noted RSUs vested in the third quarter on August 29, 2019 in accordance with the terms of the Plan and the issuance of the resulting shares occurred on October 9, 2019. The share price at the time of issuance $0.29 per common share.

On September 25, 2019, the Corporation granted RSUs to each of its three independent directors and its Board Secretary (the "2019 RSU Recipients"). In aggregate, 645,653 RSUs were granted. These grants represented compensation to the 2019 RSU Recipients for their respective service to the Corporation as Directors and as Board Secretary. Each RSU represents the right to receive one common share of the Corporation upon vesting. All of the RSUs granted on September 25, 2019 will vest on September 1, 2020, subject to the terms and conditions set forth in the Plan. The RSUs are valued at $0.28 per RSU, being the value of the Corporation's common share on the issuance date.

CONVERTIBLE DEBENTURES

As at **($ Cdn thousands)**	**December 31, 2019**	December 31, 2018
Balance at the beginning of year	**3,153**	-
Convertible debentures issued	**-**	3,050
Interest accrued	**275**	155
Conversion of convertible debentures to common shares	**-**	(52)
Unrealized gain on convertible debentures	**(1,133)**	-
Balance at the end of the year	**2,295**	3,153

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

The convertible 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. As at December 31, 2019, the debenture was valued at $1,867 (December 31, 2018: $3,000) plus interest. 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 debentures reconciles to the balance at December 31, 2019 and 2018 as follows:

As at **($ Cdn thousands)**	**December 31, 2019**	December 31, 2018
Face value	**3,000**	3,000
Fair value adjustment	**(1,133)**	-
Fair value of convertible debenture	**1,867**	3,000
Interest accrued	**428**	153
Balance at the end of the year	**2,295**	3,153

The convertible 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)).

As at December 31, 2019, the Corporation had been able to maintain the monthly cash burn rate such that the accrued annual rate of interest payable in the year was 8.5% (compounded quarterly). The $3,000 in convertible debentures can be converted into shares at the election of debenture holders at any time at a conversion price of $0.51.

As at December 31, 2019, the accrued interest is valued at $428 (December 31, 2018: $153). Accrued interest can be converted to shares at the election of the debenture holders at any time and if remaining unpaid will be converted, when the principal is converted at the volume weighted average trading price per shares for common shares over ten consecutive trading days ending on the trading day before the conversion date.

The convertible 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 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 convertible 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 at December 31, 2019 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 41%, interest payments of 8.5% to 12.0%, and a remaining expected term of 3.4 years, as at December 31, 2019. The fair value of the conversion feature is determined using a Black-Scholes model with a volatility of 125%, a risk free rate of interest of 1.69%, a stock price of $0.17 per share, and a remaining expected life of 3.4 years, as at December 31, 2019.

SUBSEQUENT EVENTS

On January 6, 2020, Katipult appointed Gord Breese to the position of President, Chief Executive Officer and Director of the Corporation. Brock Murray, Katipult's Co-Founder and former President and Chief Executive Officer was appointed to a new role of Head of Global Development.

On January 30, 2020, the World Health Organization declared the coronavirus outbreak (COVID-19) a "Public Health Emergency of International Concern" and on March 11, 2020, declared COVID-19 a pandemic. The impact of COVID-19 could negatively impact the Corporation's operations, suppliers or other vendors, customer base, and ability to raise funds through debt or equity. The extent to which the coronavirus impacts the Corporation's results will depend on future developments, which are highly uncertain and cannot be predicted, including new information which may emerge concerning the severity of the coronavirus and actions taken to contain the coronavirus or its impact, among others.

NON-GAAP MEASURES DEFINITIONS

This MD&A contains references to certain financial measures and associated per share data that do not have any standardized meaning prescribed by IFRS and may not be comparable to similar measures presented by other companies. These financial measures are computed on a consistent basis for each reporting period and include EBITDA, Adjusted EBITDA, and working capital.

These non-GAAP measures are identified and defined as follows:

"**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 mark-to-market movements 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:

For the year ended December 31,			
($ Cdn thousands)	**2019**	2018	2017
Net loss	**(306)**	(2,073)	(1,124)
Plus:			
Depreciation and amortization	**1**	1	-
Finance costs	**326**	259	23
Income taxes recovery	**(7)**	(38)	(8)
Unrealized gain on convertible debentures	**(1,133)**	-	-
Foreign exchange	**17**	(8)	-
Share-based payments	**476**	258	41
Other income	**(297)**	(10)	454
Adjusted EBITDA	**(923)**	(1,611)	(614)

"**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)**	**December 31, 2019**	December 31, 2018	Increase (decrease) in working capital
Current assets			
Cash and cash equivalents	**1,855**	2,539	(684)
Accounts receivable	**102**	67	35
Prepaid expenses	**2**	12	(10)
Total current assetes	**1,959**	2,618	(659)
Current liabilities			
Accounts payable and accrued liabilities	**291**	**392**	(101)
Deferred revenue	**138**	**32**	106
Total current liabilities	**429**	**424**	5
Working capital	**1,530**	**2,194**	(664)

ADDITIONAL GAAP MEASURES DEFINITIONS

"**Funds provided (used) by operations**" is used by management and investors 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 and investors 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 and investors 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" is comprised of monthly recurring fees charged to clients for access to operate the hosting platform, software updates, new features and technical support.

"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.

RELATED PARTY TRANSACTIONS

Related party transactions in the normal course of operations are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

As at December 31, 2019, $39 (December 31, 2018: $15) included in accounts payable and accrued liabilities is an amount payable to a company controlled by an officer of the Corporation. The amounts payable are for subcontractor charges. Total service fees incurred with this related party during the year ended December 31, 2019 were $68 (2018: $103) and share-based payments were less than $1 for 2019 (2018: $12). Amounts payable to related parties are due on demand, bear no interest, and have no fixed repayments terms.

As at December 31, 2019, $10 (December 31, 2018: $5) included in accounts payable and accrued liabilities was payable to an accounting firm where an officer of the Corporation is a partner. The amount due was not collateralized and was due on normal trade terms. Total professional fees incurred with this related party during the year ended December 31, 2019 were $114 (2018: $116) and share-based payments were $113 for 2019 (2018: $149).

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.

BUSINESS RISKS

The business of Katipult is subject to risk and uncertainties. Prior to making any investment decisions regarding Katipult, investors should carefully consider, among other things, the risk described (including risk and uncertainties listed in the Forward-Looking Statements section in this MD&A) and risk factors set forth in the most recent long form prospectus of the Corporation and the following.

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 have been described in the Corporation's MD&A for the year ended December 31, 2019. The risks identified therein 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 of. 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 ongoing operational risks including, but not limited to:

Ability to Manage Future Growth

Future growth, if any, may cause a significant strain on the Corporation's management and its operational, financial, human and other resources. The Corporation's ability to manage growth effectively will require it to implement and improve operational, financial, software development and management information systems and to expand, train, manage and motivate employees. These demands may require the addition of management and other personnel and the development of additional expertise. Any increase in resources devoted to research, product development and marketing and sales efforts without a corresponding increase in operational, financial, product development and management information systems could have a material adverse effect on the Corporation's business, financial condition and results of operations. There can be no assurance that the Corporation will be able to manage such growth effectively, that its management, personnel or systems will be adequate to support the Corporation's operations or that the Corporation will be able to achieve the increased levels of revenue commensurate with the increased levels of operating expenses associated with this growth. The Corporation is exposed to a variety of financial risks by virtue of its activities, including currency risk, credit risk, and liquidity risk. The overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on financial performance.

Fluctuation in Quarterly Results

Revenue and operating results may fluctuate as a result of a variety of factors, including demand for the Corporation's products and services; the proportion of recurring revenue versus non-recurring revenue; the introduction of new products and product enhancements by the Corporation or its competitors; changes in the Corporation's pricing policies or those of its competitors; currency exchange rate fluctuations; or the fixed nature of a significant portion of the Corporation's operating expenses, particularly salaries and leasing costs.

Lengthy Sales and Implementation Cycle

The Corporation's sales cycle, beginning with an interested customer and culminating in entering into a commercial agreement with the customer, typically ranges from one to six months and may be significantly longer. The implementation cycle typically also ranges from one to six months and may be significantly longer. During these cycles the Corporation may devote a significant amount of time and resources and experience delays over which it has no control.

Cyber Risks

As a software-as-a-service provider, the Corporation faces cyber risks such as data breaches, unauthorized access and denial of service attacks as well as associated financial, reputational and business interruption risks. Because the Corporation's technology and services involve the storage and transmission of clients' proprietary information, unauthorized access or security breaches as a result of third-party action, employee error, malfeasance or otherwise could result in the loss of information, compromising of confidential client or employee information, inability to process client transactions, unauthorized access to proprietary or sensitive information, litigation, indemnity obligations and other significant liabilities. The unauthorized release of confidential or personal information could result in, regulatory investigations, heightened regulatory scrutiny and regulatory penalties.

In addition, the Corporation's reputation could be damaged, its applications could be perceived as not being secure and clients could reduce the use of, or stop using, the Corporation's services. These risks continue to be actively managed by the Corporation through enterprise-wide technology and information security programs, with the goal of maintaining overall cyber resilience that prevents, detects and responds to such threats.

Risks Related to Cloud Based Solutions

The Corporation's strategy on software development is to provide its solutions to the client through a web interface rather than license the software for deployment to servers used by the client. Although implementation is less expensive and quicker with such a design, accessibility to the software by the client is dependent upon access to the internet, the speed and availability of which is outside the control of the Corporation. Prolonged interruptions to software access could have a material adverse effect on the Corporation's business, results of operations, liquidity, and financial condition.

Failure to Continue to Adapt to Technological Change and New Product Development

The markets for the Corporation's products are characterized by rapid technological advances, evolving industry standards, changes in end-user requirements and frequent new product introductions and enhancements. The Corporation's future success will depend upon its ability to enhance its current products, and to develop and introduce new products that keep pace with technological developments, respond to evolving end-user requirements and achieve market acceptance.

The development of such new products or enhanced versions of existing products entails significant technological risks. There can be no assurance that the Corporation will be successful in marketing its existing products or be successful in developing or marketing new products or product enhancements, any of which could have a material adverse effect on the Corporation's business, results of operations, financial condition, and liquidity.

Dependence on Management and Key Employees

The Corporation's continued success will depend, to a very significant extent, on the performance and continued services of its senior management and certain other key employees; the loss of any of whom could have a material adverse effect upon the Corporation. In addition, the Corporation has hired a number of key managers in recent years and may continue to expand its management team in the future. The Corporation believes that its future success will also depend in large part upon its ability to attract and retain highly skilled technical, managerial and sales/marketing personnel. Competition for such personnel is intense and the Corporation has experienced difficulties in recruiting qualified personnel and may continue to experience such difficulties in the future. There can be no assurance that the Corporation will be successful in attracting and retaining the personnel it requires to continue to maintain and expand its business.

Competition

The Corporation has experienced and will continue to experience intense competition from other organizations with more established sales and marketing presence, more technical services, the ability to bundle solutions with a broader set of ancillary services and greater financial resources. The Corporation's competitors may announce new products, services or enhancements that better meet the needs of customers or changing industry standards. Furthermore, additional competitors may enter the market and competition may intensify. Increased competition may cause price reductions, reduced gross margins and loss of market share, any of which could have a material adverse effect on the Corporation's business, results of operation and financial condition.

Protection of Intellectual Property

The Corporation relies primarily on a combination of copyright, trademark and trade secrets laws, confidentiality procedures, and contractual provisions to protect its proprietary rights. The Corporation generally enters into confidentiality agreements with clients, employees, and outsourced development companies, including offshore software development companies assisting the Corporation with its development activities. Despite the Corporation's efforts to protect its proprietary rights, unauthorized parties may attempt to copy and may succeed in copying aspects of the Corporation's products or may attempt to obtain and use information that the Corporation regards as proprietary. Furthermore, there can be no assurance that others will not independently develop products similar to those of the Corporation. In addition, the laws of some foreign countries do not protect the Corporation's proprietary rights to as great an extent as do the laws of Canada and the US. There can be no assurance that the Corporation's competitors will not independently develop similar technology or that the Corporation's means of protecting its proprietary rights will be adequate, and, consequently, the Corporation's business, results of operations, liquidity, and financial condition could be materially adversely affected.

The Corporation is not aware that any of its products infringe the proprietary rights of third parties. There can be no assurance, however, that third parties will not claim infringement by the Corporation with respect to current or future products. Defense of such claims, with or without merit, could be time-consuming, result in costly litigation, cause product delivery delays or require the Corporation to enter into royalty or licensing agreements. Such royalty or licensing agreements, if required, may not be available on terms acceptable to the Corporation or at all, either of which could have a material adverse effect on the Corporation's business, results of operations, liquidity, and financial condition.

Economic Conditions

The Corporation’s revenues and operating results are and will continue to be influenced by prevailing general economic conditions and financial market conditions. In such cases, customers may reduce their purchases of new outsourced services. In addition, the deterioration of economic conditions could adversely affect payment patterns which could increase the Corporation’s bad debt expense or the level of client renewals. During an economic downturn, there can be no assurance that the Corporation’s operating results, prospects and financial condition would not be adversely affected.

Pandemic Diseases – COVID-19 Response

Since December 31, 2019, the outbreak of the novel strain of coronavirus, specifically identified as “COVID-19”, has resulted in governments worldwide enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and social distancing, have caused material disruption to businesses globally resulting in an economic slowdown. Global equity markets have experienced significant volatility and weakness. Governments and central banks have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions.

The duration and impact of the COVID-19 outbreak is unknown at this time, as is the efficacy of the government and central bank interventions. It is not possible to reliably estimate the length and severity of these developments and the impact on the financial results and condition of the Corporation in future periods.

Privacy Concerns and Legislation

The Corporation’s Platform includes features and functionality that enables firms to offer securities on a prospectus-exempt basis to various types of investors. The importance of protecting the confidential information held on the Corporation’s platform and the associated regulatory requirements are increasing across the various jurisdictions in which the Corporation operates, its clients operate and where the clients’ associated employee participants reside. Federal, provincial, state and foreign government bodies and agencies have adopted, are considering adopting, or may adopt laws and regulations regarding the collection, use, storage and disclosure of personal information obtained from consumers and individuals. These domestic and international legislative and regulatory initiatives may adversely affect the ability of clients to process, handle, store, use and transmit demographic and personal information relating to their employees, which could reduce demand for the Corporation's applications.

Regulatory Environment

Certain aspects of the Corporation’s business are conducted within highly regulated industries. Changes in regulations can occur at any time and the Corporation may become subject to more strict standards in the future. Compliance with such changes in regulations could have an adverse effect on the Corporation’s business, results of operation and financial condition.

Risk Associated with a Change in the Company's Pricing Model

The competitive market in which the Corporation conducts business may require it to change its pricing model. If the Corporation's competitors offer deep discounts on certain products or services in an effort to recapture or gain market share or to sell other products, the Corporation may be required to lower prices or offer other favourable terms to compete successfully. Any such changes would likely result in a reduction of margins and could adversely affect the Corporation’s operating results.

Risk of Defects in the Corporation's Solution

Software products as complex as those offered by the Corporation may contain errors or defects, especially when first introduced or when new versions or updates are released. The Corporation regularly introduces new releases and periodically introduces new versions of its software. There can be no assurance that, despite testing by the Corporation and by its customers, defects and errors will not be found in existing products or in new products, releases, versions or enhancements after the commencement of commercial deployment. Any such defects and errors could result in litigation, adverse customer reactions, negative publicity regarding the Company and its products, harm to the Corporation's reputation, loss or delay in market acceptance or required product changes, any of which could have a material adverse effect upon the Corporation's business, results of operations and financial condition.

Dependence on Market Growth

There can be no assurance that the market for the Corporation's existing solutions will continue to grow, that customers will continue to adopt the Corporation's solutions or that the Corporation will be successful in establishing markets for its new products. If the various markets in which the Corporation's products are offered fail to grow, or grow more slowly than the Corporation currently anticipates, or if the Corporation is unable to establish markets for its new products, the Corporation's business, operating results and financial condition could be materially adversely affected.

Operational Service Risk

If the Corporation fails to or makes an error in updating or processing client data as per the instructions from a client or participant, a financial loss could occur that may be the responsibility of the Corporation. Such losses could adversely affect the Corporation's operating results.

Dependence on Partners

The Corporation has engaged certain service partners as part of the delivery of its solutions. Failure of any partner to perform required services could have a short-term adverse effect on the Corporation's business, and results of operation. Although the Corporation believes that it has a good relationship with its partners, the termination of these relationships for any reason whatsoever could have as adverse effect on the Corporation's business, and results of operation.

Delay or Failure to Realize Anticipated Benefits of Key Account Installations

The Corporation's business has grown rapidly in the last several years. The Corporation's growth places a strain on managerial, financial and human resources. The Corporation will need to provide adequate operational, financial and management controls and reporting procedures to manage the continued growth in the number of employees, scope of operating and financial systems and the geographic area of operations. Expanding the business into new geographic areas and to new customers requires the Corporation to incur costs, which may be significant, before any associated revenues materialize.

While the Corporation has been successful in securing Key Customers, the management of these relationships during a dispute or disagreement (if any) can affect the Corporation's reputation and ability to leverage these relationships for future growth.

CRITICAL ACCOUNTING JUDGEMENT AND ESTIMATES

The preparation of the financial statements requires management to make judgements and estimates that affect the reported amounts of assets, liabilities, income, and expenses. Judgements and estimates are continually evaluated and are based on historical experience and expectations of future events. While judgements and estimates used by management are believed to be reasonable under current circumstances, actual results could differ. Management has applied significant judgements on a basis consistent with the prior year, except for depreciation and amortization.

The key judgements identified in applying accounting policies that have a significant effect on the amounts recognized in the financial statements include the following:

- The determination of whether it is probable that sufficient taxable earnings will be generated in future periods to utilize tax losses and tax credits for the purpose of recognizing related tax assets. If sufficient taxable earnings are not generated, or estimates change, the Corporation would be required to reverse the related tax assets, or a portion thereof, which would impact income tax expense.
- Performance obligations are accounted for separately if they are distinct. Judgements are required in determining when a performance obligation is satisfied and revenue may be recognized. In making its judgements, management considers whether a performance obligation is distinct from other performance obligations, when a customer obtains control of the services promised in a contract and in allocating consideration to a specific part of the contract.
- As part of assessing whether an instrument is a hybrid financial instrument and contains an embedded derivative, significant judgement is required in evaluating whether the host contract is more akin to debt or equity and whether the embedded derivative is clearly and closely related to the underlying host contract. Management concluded that the host instrument of the convertible debenture was a debt host due in part to the holder's right to repayment unless specific criteria are met and the Corporation elects to force conversion. Management concluded that there are a number of elements of the convertible debenture required to be accounted for as embedded derivatives. In applying its judgement, management relied primarily on the economic characteristics and risks of the instruments as well as the substance of the contractual arrangement. Management has designated the entire hybrid contract to be measured at fair value through profit or loss.
- The determination of functional currency of the Corporation.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year are as follows:

- ***Measuring deferred income taxes.*** Key estimates and assumptions include the availability of future taxable earnings as explained above, timing of reversals for temporary differences, and future enacted tax rates.
- ***Scientific Research and Experimental Development (SRED) tax credits.*** The determination of the amount of the SRED tax credit receivable requires management to make calculations based on its interpretation of eligible expenditures in accordance with the terms of the programs. The reimbursement claims submitted by the Corporation are subject to review by the relevant government agencies. Although management has used its best judgement and understanding of the related program agreements in determining the receivable amount, it is possible that the amounts could increase or decrease by a material amount in the near-term dependent on the review and audit by the government agency.
- ***Revenue recognition.*** Estimates are also used to determine the stand-alone selling price of performance obligations and the allocation of the transaction price between performance obligations. When contracts involve more than one distinct performance obligation, consideration is allocated amongst the obligations based on their relative estimated stand-alone selling prices. The best evidence of a stand-alone selling price is the observable price of a service when the entity sells that good or service separately in similar circumstances and to similar customers. In certain circumstances, when a stand-alone selling price is not observable management estimates the stand-alone selling price by utilizing an expected cost plus margin approach.
- ***Allowance for uncollectible accounts receivable.*** Management makes use of estimates when making allowances for uncollectible accounts receivable. Management evaluates each receivable at year end using factors such as age of receivable, payment history, and credit risk. The calculation of the allowance is based on the lifetime expected credit loss.

- ***Fair value of convertible debentures.*** Management makes use of estimates and assumptions in the calculation of the initial fair values of convertible debenture derivative liabilities and subsequent re-measurements at fair value at each reporting date using a probability weighted scenario approach.

NEW STANDARDS AND INTERPRETATIONS ADOPTED

The Corporation applied the following new standard during the year ended December 31, 2019:

IFRS 16 – Leases: IFRS 16 replaces the previous guidance on lease recognition and establishes principles for recognition, measurement, presentation and disclosure of leases, with the objective of ensuring that lessees and lessors provide relevant information that faithfully represents those transactions. The new standard brings most leases onto the statement of financial position for lessees under a single model, eliminating the distinction between operating and finance leases. Lessor accounting, however, will remain largely unchanged.

The Corporation adopted IFRS 16 effective January 1, 2019 using a modified retrospective approach whereby the consolidated financial statements of prior periods presented were not restated and continue to be reported under IAS 17 and related interpretations, as permitted by the specific transition provisions of IFRS 16. Management determined the impact of this adoption as being not material.

For the year ended December 31, 2019, the Corporation had no lease arrangement other than low value and short-term leases, for which it applied the practical expedient and therefore there was no lease liabilities or right-of-use assets on transition at January 1, 2019 or December 31, 2019. Lease liabilities will be measured at the present value of lease payments using the Corporation's incremental borrowing rate at the date the lease is entered into. Property and equipment will include the corresponding right-of-use assets. The right-of-use assets will be measured at an amount equal to the lease liability, adjusted by the amount of any prepaid lease payments and lease incentives.

As permitted by IFRS 16, the Corporation elected not to recognize lease liabilities and right-of-use assets for short-term leases and leases of low value assets which will continue to be expensed on a straight-line basis over the lease term. The following practical expedients to facilitate the initial adoption of IFRS 16 have also been applied:

- The lease definition was grandfathered for existing contracts on transition. The definition of a lease under IFRS 16 was applied to existing contracts at January 1, 2019;
- Each lease component and any associated non-lease components are accounted for as a single lease component;
- A single incremental borrowing rate is applied to a portfolio of leases with similar characteristics;
- Right-of-use assets and lease liabilities were not recognized for leases with a remaining term of twelve months or less as of January 1, 2019; and
- Hindsight was used when determining the lease term when the lease contracts contain options to extend or terminate the lease.

CORPORATE INFORMATION

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Compensation and Governance Chair

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Chief Executive Officer

Brock Murray
Head of Global Development

Pheak Meas
Chief Product Officer

Officers and Board Secretary

Gord Breese
Chief Executive Officer

Karim Teja, CPA, CGA
Chief Financial Officer, Corporate Secretary

Brock Murray
Head of Global Development

Pheak Meas
Chief Product Officer

Ben Cadieux
Chief Technology Officer

Michael Sharpe
Board Secretary

Additional information relating to the Corporation is available on SEDAR at www.sedar.com