# Q1 2019

## Management Discussion & Analysis

Katipult Technology Corp. March 31, 2019

The discussion and analysis of the financial condition and results of operations of the Corporation is prepared as at May 23, 2019 and should be read in conjunction with the unaudited condensed consolidated interim financial statements of Katipult Technology Corp., and the notes thereto, for the three months period ended March 31, 2019, and with the audited consolidated financial statements of Katipult Technology Corp., and the notes thereto, for the year ended December 31, 2018.

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 consolidated 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 Katipult Technology Corp. (the "Corporation" or "Katipult"). The MD&A discusses the operating and financial results for the three months period ended March 31, 2019, is dated May 23, 2019, and takes into consideration information available up to that date.

The MD&A is based on the unaudited condensed consolidated interim financial statements of Katipult for the three months period ended March 31, 2019. The MD&A should be read in conjunction with the unaudited condensed consolidated interim financial statements and related notes for the three months period ended March 31, 2019, and the audited annual consolidated financial statements and related notes for the year ended December 31, 2018, prepared in accordance with International Financial Reporting Standards (IFRS). The Corporation's audited consolidated financial statements and unaudited condensed consolidated 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.

Additional information is available on Katipult's website (www.katipult.com) and all previous public filings, are available through SEDAR (www.sedar.com). All amounts are denominated in Canadian dollars ($) unless otherwise identified. All amounts are stated in thousands unless otherwise identified.

## 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; 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 three months ended March 31, ($ thousands) | **2019** | 2018 |
|---|---|---|
| Subscription revenue [(1)] | **303** | 126 |
| Integration revenue [(1)] | **160** | 186 |
| Total revenue | **463** | 312 |
| Gross profit [(1)] | **377** | 230 |
| Gross profit - percentage [(1)] | **81.4%** | 73.7% |
| Adjusted EBITDA [(1)] | **(238)** | (217) |
| EBITDA [(1)] | **(245)** | (242) |
| Net loss and comprehensive loss | **(319)** | (250) |

**48.4% Year over Year Increase in Total Revenue and 140.5% Year over Year Increase in Subscription Revenue [(1)]**

Subscription revenue increased from $126 in the first quarter of 2018 to $303 in Q1 2019, representing a 140.5% year over year increase. The Corporation continues growing its client base by attracting interest from different sized organizations in diverse industries including private equity, private lending and commercial real estate. In the first quarter of 2019 marked the Corporation's highest recorded quarterly subscription revenue and its fifth consecutive quarter of growth in subscription revenue.

Integration revenue was $160 in the first quarter of 2019 (2018: $186) as the Corporation successfully transitioned a greater proportion of its revenue stream to subscription-based revenue. In addition, the Corporation is focusing on targeting fewer but more established larger clients as part of a deliberate strategy at Katipult to move up market, and to demonstrate our value proposition in the enterprise market.

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

The gross margin percentage increased to 81.4% in the first quarter of 2019 (2018: 73.7%). The Corporation has maintained a gross margin percentage over 70.0% for the past six quarters. Given the costs incurred in delivering the Corporation's product has a step function, as the number of customers grows, the gross margin improves until a point in time when additional investment in capacity and support is required.

The total research and development costs increased by 38% in the first quarter of 2019 which impacted the Adjusted EBITDA of negative $238 (2018: negative $217). The Corporation continues to strategically and measuredly invest in its research and development to improve the product's functions, features and end user experience. Katipult also continues to pursue new forward-looking technologies and secured funding of up to $120 from the National Research Council of Canada Industrial Research Assistance Program (NRC IRAP) to support the development of an "Investor License" blockchain application on a decentralized network.

The Corporation's net loss and comprehensive loss increased in the first quarter of 2019 to $319, compared to the first quarter of 2018's net loss and compressive loss of $250. The increase is mainly due to higher selling, general and administrative costs, higher research and development costs and higher financing costs, partially offset by higher revenues and improved margins. The Corporation incurred additional financing costs of $64 from interest costs related to the convertible debenture; no such expenses existed in the first quarter of 2018.

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

## 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 evolving from an opportunistic sales organization to a sales driven organization, with a particular focus on its subscription revenue growth. The Corporation 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 and to demonstrate our value proposition in the enterprise market.

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 pragmatically increasing sales efforts, building brand recognition, continuing to improve the onboarding and customization activities and exploring ways to speed up 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.

The Corporation continually monitors the appropriateness of the skill set available through its staff and adjusts its complement of resources on a needs and performance basis.

## CORPORATE PROFILE

### Organization

Katipult Technology Corp. (the "Corporation" or "Katipult") is a technology company that aims to become a global leader in financial compliance software and investor administration related services. The Corporation is incorporated under the British Columbia Business Corporations Act. The registered address of the Corporation is 600, 777 Hornby Street, Vancouver, BC V6Z 1S4. 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 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 products. 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.

## NON-GAAP MEASURES AND ADDITIONAL GAAP MEASURES

Throughout this document, reference is made to "gross profit", "working capital", "EBITDA", 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, 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").

## RESULTS OF OPERATIONS

| **For the three months ended March 31,** | | |
|---|---|---|
| **($ thousands)** | **2019** | 2018 |
| Subscription revenue [1] | **303** | 126 |
| Integration revenue [1] | **160** | 186 |
| | **463** | 312 |
| Cost of revenue | **86** | 82 |
| Gross profit [1] | **377** | 230 |
| Gross profit - percentage [1] | **81.4%** | 73.7% |

Subscription revenue increased from $126 in first quarter of 2018 to $303 in first quarter of 2019, representing a 140.5% year over year increase. The Corporation continues growing its client base by attracting interest from different sized organizations in diverse industries including private equity, private lending and commercial real estate. First quarter of 2019 marked the Corporation's highest recorded quarterly subscription revenue and its fifth consecutive quarter of growth in subscription revenue.

Integration revenue was $160 in the first quarter of 2019 (2018: $186) as the Corporation successfully transitioned a greater proportion of its revenue stream to subscription based revenue. In addition, the Corporation is focusing on targeting fewer but more established larger clients as part of a deliberate strategy at Katipult to move up market, and to demonstrate our value proposition in the enterprise market.

The gross margin percentage increased to 81.4% in the first quarter of 2019 (2018: 73.7%). The Corporation has maintained a gross margin percentage over 70.0% for the past six quarters. Given the costs incurred in delivering the Corporation's product has a step function, as the number of customers grows, the gross margin improves until a point in time when additional investment in capacity and support is required.

## SELLING, GENERAL, AND ADMINISTRATION

| **For the three months ended March 31,** | | |
|---|---|---|
| **($ thousands)** | **2019** | 2018 |
| Selling, general, and administrative | | |
| less share-based expense and bad debt expense | **323** | 263 |
| Bad debt expense | **38** | - |
| Share-based payment | **133** | 24 |
| Selling, general, and administrative | **494** | 287 |

The total selling, general and administration expenses increased by $191 in the first quarter of 2019, compared to the first quarter of 2018 as a result of the Corporation's incurring additional selling and administrative costs as the business develops.

Included in the SG&A expenses is share-based expense of $133 in the period. The expense is driven by the issuance and timing of vesting of stock options and restricted share units. This is a non-cash expense.

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

## RESEARCH AND DEVELOPMENT

| For the three months ended March 31, ($ thousands) | 2019 | 2018 |
|---|---|---|
| Research and development | **254** | 184 |

Research and development expenses for the three months ended March 31, 2019 increased by 38% to $254 when compared to the same period in 2018. The increase is the result of the Corporation continuing its research and development initiatives to enhance the functionality that its clients derive from the Corporation's products as well as initiatives that speed up the onboarding process and allow for larger, scalable deployments while reducing support and maintenance costs.

## FOREIGN EXCHANGE

| For the three months ended March 31, ($ thousands) | 2019 | 2018 |
|---|---|---|
| Foreign exchange - realized | **(5)** | 1 |
| Foreign exchange - unrealized | **7** | - |
| Foreign exchange | **2** | 1 |

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 quarterly primarily in relation to changes in the US/Canadian and Euro/Canadian exchange rate.

## FINANCE COSTS

| For the three months ended March 31, ($ thousands) | 2019 | 2018 |
|---|---|---|
| Bank related charges | **9** | 5 |
| Interest on convetible debentures | **64** | - |
| Other interest and charges | **-** | 3 |
| Finance costs | **73** | 8 |

Finance costs have increased in the first quarter of 2019 compared to prior year same period mainly due to the addition of convertible debenture accrued interest and, to a lesser extent, costs of increased transactions 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 3 of the unaudited condensed consolidated interim financial statements for the three months ended March 31, 2019.

## OTHER INCOME AND EXPENSES

| For the three months ended March 31, ($ thousands) | 2019 | 2018 |
|---|---|---|
| Interest and other income | **(102)** | - |
| Government (grant) repayment | **(26)** | - |
| Other expenses | **(128)** | - |

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

Other income and expenses in the first quarter of 2019 included amounts that related to a cash prize of $97 (SGD 100) that the Corporation won at the Singapore FinTech Festival and government grants earned in those periods.

No such income or expenses were incurred in the first quarter of 2018.

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

| For the three months ended March 31, ($ thousands) | 2019 | 2018 |
|---|---|---|
| Adjusted EBITDA [(1)] | **(238)** | (217) |
| EBITDA [(1)] | **(245)** | (242) |
| Net loss and comprehensive loss | **(319)** | (250) |
| Funds provided by (used in) operations [(1)] | **(119)** | (220) |
| Cash flow provided by (used in) operations | **(191)** | (248) |

The Corporation's net loss and comprehensive loss was $319 in the first quarter of 2019 and $250 in the first quarter of 2018.

Adjusted EBITDA was negative $238 in the first quarter of 2019 compared to negative $217 in the same period last year. The higher loss is attributed to increased expenditures, mostly in selling, general and administrative expenses, and research and development partially offset by higher revenues and higher gross profit.

The Corporation's funds provided by operations decreased in the first quarter of 2019 compared to first quarter of 2018 mostly the result of the above noted costs.

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

## FINANCIAL AND OPERATING HIGHLIGHTS - QUARTERLY ANALYSIS

| | 2019 | 2018 | | | | 2017 | | |
|---|---|---|---|---|---|---|---|---|
| **($ Cdn thousands)** | **Q1** | Q4 | Q3 | Q2 | Q1 | Q4 | Q3 | Q2 |
| Subscription revenue [(1)] | **303** | 251 | 188 | 137 | 126 | 98 | 142 | 155 |
| Integration revenue [(1)] | **160** | 24 | 122 | 191 | 186 | 261 | 83 | 185 |
| Total revenue | **463** | 275 | 310 | 328 | 312 | 359 | 225 | 340 |
| Gross margin [(1)] | **377** | 201 | 229 | 243 | 230 | 269 | 140 | 262 |
| Gross margin - percentage [(1)] | **81.4%** | 73.1% | 73.9% | 74.1% | 73.7% | 74.9% | 62.2% | 77.1% |
| Adjusted EBITDA [(1)] | **(238)** | (511) | (412) | (471) | (217) | (316) | (214) | (57) |
| EBITDA [(1)] | **(245)** | (590) | (462) | (557) | (242) | (245) | (787) | (53) |
| Net loss and comprehensive loss | **(319)** | (707) | (520) | (596) | (250) | (244) | (793) | (58) |

## LIQUIDITY AND CAPITAL RESOURCES

### Working capital

| **As at**<br>**($ Cdn thousands) - unaudited** | **March 31, 2019** | December 31, 2018 | Increase (decrease) in working capital |
|---|---|---|---|
| Current assets | | | |
| Cash and cash equivalents | **2,346** | 2,539 | (193) |
| Accounts receivable | **61** | 67 | (6) |
| Prepaid expenses | **8** | 12 | (4) |
| | **2,415** | 2,618 | (203) |
| Current liabilities | | | |
| Accounts payable and accrued liabilities | **335** | **392** | (57) |
| Deferred revenue | **7** | **32** | (25) |
| | **342** | **424** | (82) |
| Working capital [(1)] | **2,073** | **2,194** | (121) |

The key driver of the change in working capital is the decrease in cash and cash equivalents related to the increased selling and administrative costs, offset by the decrease of $82 in accounts payable and accrued liabilities and deferred revenue.

### Liquidity

At March 31, 2019, the Corporation had $2,346 (December 31, 2018: $2,539) cash on hand.

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

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

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, 2018 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 required by growth, the occurrence of adverse circumstances, the need to refinance existing debt or to redeem the convertible debentures, or the decision to expand geographically into new markets or by acquisition. 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.

## 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, March 31, 2019, and May 23, 2019 | 67,909,793 |

### Common shares

At March 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 comprises all share-based payment transactions that do not involve the issuance of shares, private placement proceeds allocated to unexercised share purchase warrants, and unexercised stock options.

## 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.

At December 31, 2018 and March 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 and 2019.

As of March 31, 2019, 2,882,500 options were exercisable (December 31, 2018: 2,882,500).

## Restricted Share Unit Plan

The Corporation granted restricted share units (the "RSUs") under the Corporation's Restricted Share Unit Plan (the "Plan") to each of its five independent directors (the "RSU Recipients") on October 26, 2018. In aggregate, 443,547 RSUs were granted. These grants represent compensation to the 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. None of the RSU Recipients currently receive any other form of compensation from the Corporation for their service as independent directors, whether in cash or by way of equity or stock options.

Each RSU represents the right to receive one common share of the Corporation upon vesting. All of the RSUs will vest upon the date the Corporation holds its 2019 annual general meeting of shareholders, subject to the terms and conditions set forth in the Plan. The RSUs are valued at $0.63 per RSU, being the value of the Corporation’s common shares on the issuance date.

There were no such transactions in the first quarter of 2019.

## SUBSEQUENT EVENT

Subsequent to period end, 40,323 RSUs were granted to the Board Secretary for his service to the board of directors of the Corporation. These RSUs will vest upon the date the Corporation holds its 2019 annual general meeting of shareholders, subject to the terms and conditions set forth in the Plan. The RSUs are valued at $0.18 per RSU, being the value of the Corporation’s common shares on the issuance date.

## CONVERTIBLE DEBENTURES

| ($ Cdn thousands) - unaudited | $ |
|---|---|
| Balance, December 31, 2017 | - |
| Convertible debentures issued | 3,050 |
| Interest accrued | 155 |
| Shares issued on exercise of convertible debentures | (52) |
| Balance, December 31, 2018 | 3,153 |
| Interest accrued | **64** |
| Balance, March 31, 2019 | **3,217** |

In the second quarter of 2018, the Corporation issued convertible debentures of $3,050 with a five-year maturity date. The debenture may be extended beyond the maturity date by the holder, 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 designated the entire hybrid contract as at fair value with adjustments recorded to finance costs in the profit or loss.

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 March 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 period 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 March 31, 2019, the unpaid accrued interest payable of $217 can be converted to shares at the election of the debenture holders at any time 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.

## COMMITMENTS AND CONTINGENCIES

As of March 31, 2019, and as of the date of this MD&A, and in the normal course of business, other than in relation to the convertible debenture financing, the Corporation has no material obligations to make future payments, representing contracts and other commitments that are known and committed.

## 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:

"**EBITDA**" is a measure of the Corporation's operating profitability. 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.

EBITDA is derived from the consolidated statements of operations and comprehensive income (loss) and is calculated as follows:

| **For the three months ended March 31,** | | |
|---|---|---|
| **($ thousands)** | **2019** | 2018 |
| Net loss | **(319)** | (250) |
| Plus: | | |
| Depreciation and amortization | **1** | - |
| Finance costs | **73** | 8 |
| EBITDA | **(245)** | (242) |

"**Adjusted EBITDA**" is used by management and investors to analyze EBITDA (as defined above) 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 provides an indication of the results generated by the Corporation's principal business activities prior to how these activities are financed, assets are depreciated, amortized and impaired, the impact of foreign exchange, how the results are taxed in various jurisdictions, effects of share-based payment expenses, and normalized other expenses not recurring in nature.

Adjusted EBITDA is calculated as follows:

| **For the three months ended March 31,** | | |
|---|---|---|
| **($ thousands)** | **2019** | 2018 |
| EBITDA | **(245)** | (242) |
| Plus: | | |
| Foreign exchange | **2** | 1 |
| Share-based payment | **133** | 24 |
| Other income and expenses | **(128)** | - |
| Adjusted EBITDA | **(238)** | (217) |

"**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 consolidated statements of financial positions and is calculated as follows:

| **As at**<br>**($ Cdn thousands) - unaudited** | **March 31, 2019** | December 31, 2018 | Increase (decrease) in working capital |
|---|---|---|---|
| Current assets | | | |
| Cash and cash equivalents | **2,346** | 2,539 | (193) |
| Accounts receivable | **61** | 67 | (6) |
| Prepaid expenses | **8** | 12 | (4) |
| | **2,415** | 2,618 | (203) |
| Current liabilities | | | |
| Accounts payable and accrued liabilities | **335** | **392** | (57) |
| Deferred revenue | **7** | **32** | (25) |
| | **342** | **424** | (82) |
| Working capital | **2,073** | **2,194** | (121) |

## ADDITIONAL GAAP MEASURES DEFINITIONS

"**Funds provided 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 Consolidated 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 consolidated statements of operations and comprehensive income (loss) and from the segmented information contained in the notes to the consolidated 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 consolidated statements of operations and comprehensive income (loss) and from the segmented information in the notes to the consolidated financial statements. Gross profit percentage is defined as gross profit divided by revenue.

**"Subscription revenue"** are 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 charges 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.

## 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.

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 the performance of key suppliers, product performance, and government and other industry regulations and reliance on information systems, all of which may affect the ability of the Corporation to meet its obligations. While management believes its innovation and technology make it a leader in the industry, revenue and results may be affected if products are not accepted in the market place, are not approved by regulatory authorities, or if products are not brought to market in a timely manner.

## CRITICAL ACCOUNTING JUDGEMENT AND ESTIMATES

The preparation of the consolidated 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.

## NEW STANDARDS AND INTERPRETATIONS ADOPTED

A number of new standards and amendments to existing standards have been issued by the International Accounting Standards Board (IASB) that are effective after December 31, 2018 and therefore have been applied to these consolidated financial statements.

These new standards are as follows:

**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 standard has been adopted beginning on January 1, 2019 with no change to comparative information presented under IAS 39. The Corporation has adopted this standard in the preparation of these statements. Management determined the impact of this adoption as being not material.

## CORPORATE INFORMATION

### Head Office

600, 777 Hornby Street
Vancouver, BC
V6Z 1S4

Telephone: 403.457.8008

www.Katipult.com

### Directors

Marcus Shapiro
Chair of the Board

Jeff Dawson
Audit Committee Chair

David Jaques
Governance & Compensation Committee Chair

Brian Craig
Director

Brock Murray
Chief Executive Officer & Co-Founder

Paul Sun
Director

Pheak Meas
Chief Product Officer & Co-Founder

### Officers

Brock Murray
Chief Executive Officer & Co-Founder

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

Ben Cadieux
Chief Information Officer

Pheak Meas
Chief Product Officer & Co-Founder

Doug McLean MSc.
Chief Technology Officer

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