



Q1 2020

Condensed Interim Financial Statements

Katapult Technology Corp.

March 31, 2020

NOTICE OF NO AUDITOR REVIEW OF CONDENSED INTERIM FINANCIAL STATEMENTS

The accompanying unaudited condensed interim financial statements of the Corporation have been prepared by and are the responsibility of the Corporation's management.

The Corporation's independent auditor has not performed a review of these financial statements in accordance with the standards established by the Chartered Professional Accountants of Canada for a review of condensed consolidated interim financial statements.



STATEMENTS OF FINANCIAL POSITION

As at		March 31,	December 31,
(\$ Cdn thousands) - unaudited	Note	2020	2019
Assets			
Current assets			
Cash and cash equivalents		1,449	1,855
Marketable securities		97	-
Accounts receivable		130	102
Prepaid expenses		22	2
Total current assets		<u>1,698</u>	1,959
Property and equipment		5	6
Rights of use asset	3	<u>72</u>	-
Total assets		<u>1,775</u>	1,965
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		297	291
Deferred revenue		99	138
Current portion of lease obligation	3	<u>27</u>	-
Total current liabilities		<u>423</u>	429
Lease obligation	3	55	-
Convertible debentures	4	<u>2,647</u>	2,295
Total liabilities		<u>3,125</u>	2,724
Shareholders' Deficiency			
Share capital	5	2,005	2,005
Contributed surplus		546	409
Deficit		<u>(3,901)</u>	(3,173)
Total shareholders' deficiency		<u>(1,350)</u>	(759)
Total liabilities and shareholders' deficiency		<u>1,775</u>	1,965

Going concern 2

(See Notes to the Condensed Interim Financial Statements)

Approved on behalf of the Board:

"signed" Jeff Dawson
Director

"signed" Gord Breese
Director



STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
For the three months ended March 31,
(\$ Cdn thousands, except per share amounts) - unaudited

	Note	2020	2019
Revenue	7	360	463
Cost of revenue	8	65	86
Gross profit		295	377
Expenses			
Selling, general, and administrative	8	517	494
Research and development	8	182	254
Foreign exchange		(44)	2
Depreciation and amortization		4	1
Other income	9	(3)	(128)
Net loss before finance costs and unrealized gain on convertible debentures		(361)	(246)
Finance costs	8	89	73
Unrealized loss on convertible debentures		278	-
Net (loss) income and comprehensive (loss) income		(728)	(319)
Loss per share			
Basic / Diluted	6	(0.01)	(0.00)

(See Notes to the Condensed Interim Financial Statements)



STATEMENTS OF CHANGES IN SHAREHOLDERS' DEFICIENCY

For the three months ended March 31, 2020 and 2019

(\$ Cdn thousands, except per share amounts) - unaudited

	Note	Common Shares	Share Capital	Contributed surplus	Deficit	Total shareholders' equity (deficiency)
Balance at December 31, 2019		68,633,663	2,005	409	(3,173)	(759)
Net loss and comprehensive loss		-	-	-	(728)	(728)
Share-based payments	8	-	-	137	-	137
Balance at March 31, 2020		68,633,663	2,005	546	(3,901)	(1,350)
Balance at December 31, 2018		67,909,793	1,687	227	(2,867)	(953)
Net income and comprehensive income		-	-	-	(319)	(319)
Share-based payments	8	-	-	133	-	133
Balance at March 31, 2019		67,909,793	1,687	360	(3,186)	(1,139)

(See Notes to the Condensed Interim Financial Statements)



STATEMENTS OF CASH FLOWS
For the three months ended March 31,
(\$ Cdn thousands) - unaudited

	Note	2019	2018
Cash flows provided by (used in)			
Operating activities			
Net (loss) income and comprehensive (loss) income		(728)	(319)
Adjustments for:			
Depreciation and amortization		4	1
Foreign exchange		(44)	2
Finance costs	8	89	73
Unrealized loss on convertible debentures		278	-
Share-based payments	8	137	133
Other		(3)	(5)
Interest - paid		(9)	(9)
Interest - received		3	5
Funds used in operations activities before change in non-cash working capital		(273)	(119)
Change in non-cash working capital		(70)	(72)
Total funds used in operating activities		(343)	(191)
Investing activities			
Investment in marketable securities, net		(97)	-
Total funds used in investing activities		(97)	-
Effect of translation of foreign currency cash		34	(2)
Net (decrease) increase in cash		(406)	(193)
Cash and cash equivalents, beginning of period		1,855	2,539
Cash and cash equivalents, end of period		1,449	2,346

(See Notes to the Condensed Interim Financial Statements)



NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(\$ Cdn thousands, except as noted)

1. STRUCTURE OF CORPORATION

Organization

Katapult Technology Corp. (the "Corporation" or "Katapult") 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, Katapult amalgamated with its wholly-owned subsidiary. The registered address of the Corporation is 340, 318 11 Ave SE, Calgary, AB, T2G 0Y2. Katapult is a publicly traded company listed on the TSX Venture Exchange ("TSXV") under the symbol "FUND".

Operations

The main business of the Corporation is to operate as a financial technology 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 Katapult'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.

2. BASIS OF PREPARATION

Statement of compliance:

These condensed interim financial statements were prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) applicable to the preparation of interim financial statements. These condensed interim financial statements were prepared using International Accounting Standard (IAS) 34 - Interim Financial Reporting as at and for the three months period ended March 31, 2020. These condensed interim financial statements were authorized for issuance by the Board of Directors as of May 26, 2020.

These condensed interim financial statements were prepared by management and follow the same accounting policies and methods as the audited financial statements as at and for the year-ended December 31, 2019. These



NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(\$ Cdn thousands, except as noted)

condensed interim financial statements do not contain all of the disclosures required for the annual financial statements. As a result, these condensed interim financial statements should be read in conjunction with the Corporation's annual financial statements for the year-ended December 31, 2019, prepared in accordance with IFRS as issued by the IASB.

Basis of measurement:

The financial statements have been prepared on the historical cost basis, other than the convertible debentures, which are measured at fair value. See Note 4 for more details.

Functional and presentation currency:

The financial statements are 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.

Going concern:

These financial statements have been prepared on the basis that the Corporation will continue as a going concern, which assumes that the Corporation will be able to raise the necessary capital on terms acceptable to the Corporation and be able to realize its assets and satisfy its liabilities in the normal course of business for the foreseeable future. Management is aware, in making its going concern assessment, of material uncertainties related to events and conditions that may cast significant doubt upon the Corporation's ability to continue as a going concern. These financial statements do not include necessary adjustments to reflect the recoverability and classification of recorded assets and liabilities and related expenses that might be necessary should the Corporation be unable to continue as a going concern. Such adjustments could be material.

As at March 31, 2020, the Corporation's cash and cash equivalents were \$1,449 (December 31, 2019: \$1,855), an additional \$97 was held in government investment certificates (December 31, 2019: \$nil) and the Corporation had a positive net working capital position of \$1,275 (December 31, 2019: \$1,530). However, the Corporation had a net loss for the period ended March 31, 2020 of \$728 (net loss for year ended December 31, 2019: \$306) and has a deficit of \$3,901 at March 31, 2020 (December 31, 2019: \$3,173).

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 March 31, 2020 is uncertain.

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. While the Corporation continues to operate in a similar manner due to its SaaS model, 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



NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(\$ Cdn thousands, except as noted)

severity of these developments and the impact on the financial results and condition of the Corporation in future periods.

3. LEASES

Lease liabilities is measured at the present value of lease payments using the Corporation's incremental borrowing rate at the date the lease was entered. The corresponding right-of-use assets is included in non-current assets. The right-of-use assets is measured at an amount equal to the lease liability, adjusted by the amount of any prepaid lease payments and lease incentives.

During the first quarter of 2020, the Corporation entered into a sublease for new head office space which expires on July 30, 2022. The Corporation has included the non-lease components of the lease payment within the lease liabilities.

Right of use assets

\$ Cdn thousands	
Cost	
At December 31, 2019	-
Addition	76
At March 31, 2020	76
Accumulated depreciation	
At December 31, 2019	-
Addition	4
At March 31, 2020	4
Carrying amount	
At December 31, 2019	-
At March 31, 2020	72

Lease liabilities

\$ Cdn thousands	
Balance as at December 31, 2019	-
Addition	76
Accretion expense	6
Repayment of lease liabilities	-
Balance as at March 31, 2020	82
Less: current lease liabilities	27
Long-term lease liabilities	55



NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(\$ Cdn thousands, except as noted)

Undiscounted cash outflows related to the lease liabilities are:

As at	
\$ Cdn thousands	
Maturity analysis – contractual undiscounted cash flows	
Less than one year	40
One to five years	58
More than five years	-
Total undiscounted lease liabilities	98

4. CONVERTIBLE DEBENTURES

As at	March 31,	December 31,
(\$ Cdn thousands) - unaudited	2020	2019
Balance at the beginning of period	2,295	3,153
Interest accrued	74	275
Unrealized loss (gain) on convertible debentures	278	(1,133)
Balance at the end of the period	2,647	2,295
Face value at end of the period	3,000	3,000

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 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 measured the entire hybrid contract at fair value with adjustments recorded to finance costs in the statements of operations and comprehensive loss. As at March 31, 2020, the debenture was valued at \$2,145 (December 31, 2019: \$1,867) 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 debenture reconciles to the balance as at March 31, 2020 and December 31, 2019 as follows:



NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(\$ Cdn thousands, except as noted)

As at	March 31,	December 31,
(\$ Cdn thousands) - unaudited	2020	2019
Face value	3,000	3,000
Fair value adjustment	(855)	(1,133)
Fair value of convertible debenture	2,145	1,867
Interest accrued	502	428
Balance at the end of the year	2,647	2,295

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

The interest rate is the lesser of:

- 8.50% plus (0.50% x number of Shortfall Months) compounded quarterly; or
- 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, 2020, 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, 2020, the unpaid accrued interest payable is valued at \$502 (December 31, 2019: \$428). Accrued interest can be converted to shares at the election of the 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:

- positive EBITDA normalized for abnormal items;
- revenue equal to at least \$0.023 per issued and outstanding Common Share;
- 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
- 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



NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(\$ Cdn thousands, except as noted)

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 years and 5 months, 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 years and 5 months, as at December 31, 2019.

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 years and 2 months, as at March 31, 2020. 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 1.83%, a stock price of \$0.28 per share, and a remaining expected life of 3 years and 2 months, as at March 31, 2020.

Sensitivity analysis:

A \$0.01 increase in the share price within the Black-Scholes model would result in an increase in the fair value of the convertible debenture of \$45. A 1% increase in discount rate would result in a decrease in the fair value of the convertible debenture of \$32. Comparable decreases in each of the share price and discount rate would result in a comparable opposite change in the fair value of the convertible debenture.

5. SHARE CAPITAL

(a) Common shares

(\$ Cdn thousands) - unaudited	Note	Number	\$
Balance, December 31, 2018		67,909,793	1,687
Shares issued on conversion of restricted share units		483,870	287
Shares issued on exercise of stock options		240,000	31
Balance, December 31, 2019 and March 31, 2020		68,633,663	2,005

At March 31, 2020, 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.

(b) Contributed surplus

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

Options

The Corporation has adopted a Stock Option Plan ("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



NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(\$ Cdn thousands, except as noted)

terms of the 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.

No stock options were exercised or granted during the first quarters of 2019 or 2020.
As at March 31, 2020, 2,775,833 options were exercisable (December 31, 2019: 2,775,833).

Restricted Share Unit Plan

The Corporation has also adopted a Restricted Share Unit plan ("RSU Plan"). The Corporation granted restricted share units (the "RSUs") under the RSU Plan to its independent directors. 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 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 RSU Plan. The RSUs are valued at \$0.28 per RSU, being the value of the Corporation's common share on the issuance date.

6. EARNINGS PER SHARE

Basic earnings per share for the three months period ended March 31, 2020 and 2019 is based on the net earnings attributable to shareholders, as reported in the statements of operations and comprehensive loss, and the weighted average number of common shares outstanding in the relevant period.

Diluted earnings per share for the three months period ended March 31, 2020 and 2019 is based on the net earnings attributable to shareholders as reported in the statements of operations and comprehensive loss and diluted weighted average number of common shares outstanding in the relevant period:

For the three months ended March 31,		
(\$ Cdn thousands, except per share amounts)	2020	2019
Weighted average number of common shares		
Basic	68,633,663	67,909,793
Diluted	68,633,663	67,909,793

Potential common shares arising from the securities listed below were excluded from the weighted average number of diluted common shares outstanding for 2019 because they were antidilutive:

- 6,342,500 stock options;
- Convertible debentures with a principal amount of \$3,000 which can be converted into common shares at \$0.51 at the election of the debenture holders for a total of 5,882,353 shares and as at March 31, 2020, the unpaid accrued interest payable of \$502 which 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 the ten consecutive trading days ending on the trading day before the conversion date; and
- 645,653 restricted share units.



NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(\$ Cdn thousands, except as noted)

7. REVENUE

For the three months ended March 31, (\$ Cdn thousands)	2020	2019
Subscription revenue	329	303
Integration revenue	31	160
Total revenue	360	463

The Corporation presents revenue in two major categories: subscription revenue and integration revenue. Subscription revenue consists primarily of monthly recurring SAAS revenue earned by providing access to the Platform. Integration revenue consists of revenue arising from the provision of regulatory consulting, marketing consulting, and customization services to clients.

8. EXPENSES BY NATURE

The Corporation presents certain expenses in the statements of operations and comprehensive income (loss) by function. The following table presents those expenses by nature:

For the three months ended March 31, (\$ Cdn thousands)	2020	2019
Expenses		
Salaries, subcontractors, and benefits	416	447
Marketing and sales costs	39	29
External services and facilities	156	187
Bad debt expense	17	38
Share-based payments	137	133
Total expenses	765	834
Allocated to:		
Cost of revenue	65	86
Selling, general, and administrative	518	494
Research and development	182	254
Total expenses	765	834
Finance costs		
Bank related charges	9	9
Interest on convertible debentures	74	64
Interest on lease obligation	6	-
Total finance costs	89	73



NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(\$ Cdn thousands, except as noted)

9. OTHER INCOME AND EXPENSES

For the three months ended March 31, (\$ Cdn thousands)	2020	2019
Other and interest income	(3)	(102)
Government grant	-	(26)
Total other income	(3)	(128)

10. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to the financial statement presentation adopted in the current period.