



Q3 2020

Condensed Interim Financial Statements

Katapult Technology Corp.

September 30, 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.



STATEMENTS OF FINANCIAL POSITION

As at		September 30,	December 31,
(\$ Cdn thousands) - unaudited	Note	2020	2019
Assets			
Current assets			
Cash and cash equivalents		1,072	1,855
Marketable securities		97	-
Accounts receivable		105	102
Prepaid expenses		16	2
Total current assets		<u>1,290</u>	1,959
Property and equipment		4	6
Rights of use asset	3	<u>56</u>	-
Total assets		<u>1,350</u>	1,965
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		299	291
Deferred revenue		439	138
Current portion of lease obligation	3	<u>33</u>	-
Total current liabilities		<u>771</u>	429
Lease obligation	3	33	-
Convertible debentures	4	<u>3,083</u>	2,295
Total liabilities		<u>3,887</u>	2,724
Shareholders' Deficiency			
Share capital	5	2,186	2,005
Contributed surplus		566	409
Deficit		<u>(5,289)</u>	(3,173)
Total shareholders' deficiency		<u>(2,537)</u>	(759)
Total liabilities and shareholders' deficiency		<u>1,350</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



CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)

(\$ thousands, except per share amounts) - unaudited	Note	Three months ended		Nine months ended	
		September 30, 2020	2019	September 30, 2020	2019
Revenue	7	301	387	990	1,234
Cost of revenue	8	69	76	210	240
Gross profit		232	311	780	994
Expenses					
Selling, general, and administrative	8	494	438	1,506	1,379
Research and development	8	190	190	591	656
Foreign exchange		9	(7)	(14)	9
Depreciation and amortization		8	-	22	1
Other income and expenses	9	(1)	(40)	(26)	(270)
Net loss before finance costs		(468)	(270)	(1,299)	(781)
Finance costs	8	84	83	254	234
Unrealized loss on convertible debentures		216	-	563	-
Total comprehensive income (loss)		(768)	(353)	(2,116)	(1,015)
Earnings per share					
Basic / Diluted	6	(0.01)	(0.01)	(0.03)	(0.01)

(See Notes to the Condensed Interim Financial Statements)



STATEMENTS OF CHANGES IN SHAREHOLDERS' DEFICIENCY

For the nine months ended September 30, 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		-	-	-	(2,116)	(2,116)
Shares issued on conversion of restricted share units		645,653	181	(181)	-	-
Share-based payments	8	-	-	338	-	338
Balance at September 30, 2020		69,279,316	2,186	566	(5,289)	(2,537)
Balance at December 31, 2018		67,909,793	1,687	227	(2,867)	(953)
Net income and comprehensive income		-	-	-	(1,015)	(1,015)
Share-based payments	8	-	-	337	-	337
Balance at September 30, 2019		67,909,793	1,687	564	(3,882)	(1,631)

(See Notes to the Condensed Interim Financial Statements)



STATEMENTS OF CASH FLOWS
For the nine months ended September 30,
(\$ Cdn thousands) - unaudited

	Note	2020	2019
Cash flows provided by (used in)			
Operating activities			
Net (loss) income and comprehensive (loss) income		(2,116)	(1,015)
Adjustments for:			
Depreciation and amortization		22	1
Foreign exchange		(14)	9
Finance costs	8	254	234
Unrealized loss on convertible debentures		563	-
Share-based payments	8	338	337
Other		(4)	(14)
Interest - paid		(19)	(31)
Interest - received		4	14
Funds used in operations activities before change in non-cash working capital		(972)	(465)
Change in non-cash working capital		279	(175)
Total funds used in operating activities		(693)	(640)
Investing activities			
Investment in marketable securities, net		(97)	-
Total funds used in investing activities		(97)	(1)
Effect of translation of foreign currency cash		7	(4)
Net (decrease) increase in cash		(783)	(645)
Cash and cash equivalents, beginning of period		1,855	2,539
Cash and cash equivalents, end of period		1,072	1,894

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

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

The Corporation provides its proprietary software through a "Software as a Service" ("SaaS") business model. In exchange for a monthly subscription, customers benefit from software updates, new features and technical support. The Corporation also earns integration revenue 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- and nine-month periods ended September 30, 2020. These condensed interim financial statements were authorized for issuance by the Board of Directors on November 18, 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 condensed interim financial statements do not contain all the disclosures required for the annual financial



NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(\$ Cdn thousands, except as noted)

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 September 30, 2020, the Corporation's cash and cash equivalents were \$1,072 (December 31, 2019: \$1,855), and an additional \$97 was held in government investment certificates (December 31, 2019: \$nil) and the Corporation had a positive net working capital position of \$519 (December 31, 2019: \$1,530). However, the Corporation had a net loss for the period ended September 30, 2020 of \$2,116 (net loss for year ended December 31, 2019: \$306) and has a deficit of \$5,289 at September 30, 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 after September 30, 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 increased volatility during this period. 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 September 30, 2020	76
Accumulated depreciation	
At December 31, 2019	-
Addition	20
At September 30, 2020	20
Carrying amount	
At December 31, 2019	-
At September 30, 2020	56

Lease liabilities

\$ Cdn thousands	
Balance as at December 31, 2019	-
Addition	76
Accretion expense	2
Repayment of lease liabilities	(8)
Balance as at September 30, 2020	66
Less: current lease liabilities	33
Long-term lease liabilities	33



NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(\$ Cdn thousands, except as noted)

Undiscounted cash outflows related to the lease liabilities are:

As at	September 30,
\$ Cdn thousands	2020
Maturity analysis – contractual undiscounted cash flows	
Less than one year	43
One to five years	36
More than five years	-
Total undiscounted lease liabilities	79

4. CONVERTIBLE DEBENTURES

As at	September 30,	December 31,
(\$ Cdn thousands)	2020	2019
Balance at the beginning of period	2,295	3,153
Interest accrued during the period	225	275
Unrealized loss (gain) on convertible debentures	563	(1,133)
Balance at the end of the period	3,083	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 debentures 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 September 30, 2020, the debentures were valued at \$2,430 (December 31, 2019: \$1,867) plus accrued interest. The face value of \$3,000, plus all accrued interest (\$653 as at September 30, 2020), will be repayable on maturity, if not converted prior to this date.

The face value of the debenture reconciles to the balance as at September 30, 2020 and December 31, 2019 as follows:

As at	September 30,	December 31,
(\$ Cdn thousands)	2020	2019
Face value	3,000	3,000
Fair value adjustment	(570)	(1,133)
Fair value of convertible debenture	2,430	1,867
Interest accrued	653	428
Balance at the end of the period	3,083	2,295



NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(\$ Cdn thousands, except as noted)

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)).

Throughout the nine months ended September 30, 2020, the Corporation has been able to maintain the monthly cash burn rate such that the accrued annual rate of interest payable was between 8.5% and 8.9% (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 September 30, 2020, the unpaid accrued interest payable is valued at \$653 (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:

- 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 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 as at September 30, 2020 is determined using a discount rate of 41%, interest payments of 8.5% to 12.0%, and a remaining expected term of 2 years and 8 months. 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 0.25%, a stock price of \$0.27 per share, and a remaining expected life of 2 years and 8 months, as at September 30, 2020.



NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(\$ Cdn thousands, except as noted)

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)	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		68,633,663	2,005
Shares issued on conversion of restricted share units		645,653	181
Balance, September 30, 2020		69,279,316	2,186

At September 30, 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 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, second, and third quarters of 2020. In the third quarter of 2020, 542,500 stock options were forfeited. Comparatively, no stock options were exercised or granted during the first and second quarter of 2019, but 3,300,000 stock options were granted during the third quarter of 2019. No options were exercised in the third quarter of 2019.

No stock options were exercised or granted during the first, second, and third quarters of 2020. In the third quarter of 2020, 542,500 stock options were forfeited.



NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(\$ Cdn thousands, except as noted)

As at September 30, 2020, 5,800,000 options were outstanding of which 2,866,666 options were exercisable (December 31, 2019: 6,342,500 outstanding and 2,775,833 exercisable).

Restricted Share Unit Plan

The Corporation has also adopted a Restricted Share Unit plan (“RSU Plan”). On September 25, 2019, the Corporation granted restricted share units (the “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 vested 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 grant date. The RSUs vested in the third quarter on September 1, 2020 in accordance with the terms of the plan and the issuance of the resulting shares occurred on September 9, 2020. The share price at the time of issuance was \$0.24 per common share. There were no outstanding RSUs as at September 30, 2020.

6. EARNINGS PER SHARE

Basic earnings per share for the three- and nine-month periods ended September 30, 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- and nine-month periods ended September 30, 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:

	Three months ended		Nine months ended	
	September 30,		September 30,	
(\$ thousands, except per share amounts)	2020	2019	2020	2019
Weighted average of common shares				
Basic	68,781,040	67,909,793	68,683,147	67,909,793
Diluted	68,781,040	67,909,793	68,683,147	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 2020 because they were antidilutive:

- 5,800,000 stock options; and
- 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 September 30, 2020 and, the unpaid accrued interest payable of \$653 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.



NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(\$ Cdn thousands, except as noted)

7. REVENUE

(\$ thousands)	Three months ended		Nine months ended	
	September 30,		September 30,	
	2020	2019	2020	2019
Subscription revenue	301	365	959	975
Integration revenue	-	22	31	259
Total revenue	301	387	990	1,234

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:

(\$ Cnd thousands) - unaudited	Three months ended		Nine months ended	
	September 30,		September 30,	
	2020	2019	2020	2019
Expenses				
Salaries, subcontractors, and benefits	442	362	1,337	1,188
Marketing and sales costs	12	30	59	93
External services and professional fees	176	204	454	581
Bad debt expense	58	33	119	76
Share-based payments	65	75	338	337
Total expenses	753	704	2,307	2,275
Allocated to:				
Cost of revenue	69	76	210	240
Selling, general, and administrative	494	438	1,506	1,379
Research and development	190	190	591	656
Total expenses	753	704	2,307	2,275
Finance costs				
Bank related charges	5	9	19	31
Interest on convertible debentures	77	74	225	203
Interest on lease obligation	2	-	10	-
Total finance costs	84	83	254	234



NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(\$ Cdn thousands, except as noted)

9. OTHER INCOME AND EXPENSES

(\$ thousands)	Three months ended		Nine months ended	
	September 30,		September 30,	
	2020	2019	2020	2019
Interest and other income	(1)	(5)	(11)	(112)
Government grant	-	(35)	(15)	(158)
Total other income and expenses	(1)	(40)	(26)	(270)