Q3 2020

Management Discussion & Analysis

Katipult Technology Corp. September 30, 2020

The discussion and analysis of the financial condition and results of operations of the Corporation is prepared as at November 20, 2020 and should be read in conjunction with the unaudited condensed interim financial statements of Katipult Technology Corp., and the notes thereto, for the three-and nine-month periods ended September 30, 2020, and with the audited consolidated financial statements of Katipult Technology Corp., and the notes thereto, for the year ended December 31, 2019.

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- and nine-month periods ended September 30, 2020, is dated November 20, 2020, and takes into consideration information available up to that date.

The MD&A is based on the unaudited condensed interim financial statements of Katipult for the three- and nine-month periods ended September 30, 2020. The MD&A should be read in conjunction with the unaudited condensed interim financial statements and related notes for the three- and nine-month periods ended September 30, 2020, and the audited 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 consolidated financial statements and unaudited condensed interim financial statements have been prepared on the "going concern" basis, which presumes that the Corporation will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future.

Unless otherwise identified, the MD&A is presented in Canadian dollars, which is the Corporation's functional currency. All financial information presented in dollars has been rounded to the nearest thousand except for share and per share amounts.

Additional information is available on 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

($ Cdn thousands)	Three months ended September 30, 2020	Three months ended September 30, 2019	Nine months ended September 30, 2020	Nine months ended September 30, 2019
Subscription revenue [1]	**301**	365	**959**	975
Integration revenue [1]	-	22	**31**	259
Total revenue	**301**	387	**990**	1,234
Gross profit [1]	**232**	311	**780**	994
Gross profit percentage [1]	**77.1%**	80.4%	**78.8%**	80.6%
Adjusted EBITDA [1]	**(387)**	(242)	**(979)**	(704)
Total comprehensive income (loss)	**(768)**	(353)	**(2,116)**	(1,015)

Subscription Revenue [1]

The Corporation continues to expand and improve its product to meet the evolving needs of existing and prospective new customers. Since the latter half of 2018, the Corporation has been 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. Subscription revenue for the three- and nine-month periods decreased to $301 and $959, over the comparable period in fiscal 2019. The decrease in revenue is due to the Corporation's focus on the enterprise market combined with an increase churn in the small customers.

The Corporation did not have any integration revenue in the second and third quarter of 2020. The Corporation expects to have limited integration revenue as it reduces its emphasis on non-recurring integration revenue.

Continued investment impacts Adjusted EBITDA[1] and Net Income

Gross profit percentage was to 77.1% in the third quarter of 2020 (2019: 80.4%). The lower gross profit was largely due to lower subscription and integration revenue partially offset by lower expenses related to cost of revenue. The Corporation has maintained a gross profit percentage over 70.0% for the past eleven quarters.

Adjusted EBITDA losses increased to $387 in the third quarter of 2020 (2019: loss $242) primarily due to lower subscription and integration revenue and higher selling, general, and administrative costs. Similarly, the Corporation's net loss and comprehensive loss increased to $768 in the third quarter of 2020 compared to $353 in third quarter of 2019. The increased loss is due to a $216 increase in the fair value liability relating to the Corporation's outstanding convertible debentures in addition to lower integration revenue, higher selling, general, and administrative costs, lower other Income, and higher finance costs, partially offset by higher subscription revenue. It should be noted that the outstanding principal of the convertible debentures of $3,000 remained unchanged and the amount outstanding, which may fail to be repaid in full in certain circumstances, is significantly greater than the amount recognised as a liability on the statement of financial position.

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

New Deal Management Platform for TSX Trust

On August 13, 2020, the Corporation announced that TSX Trust Company ("TSX Trust"), a subsidiary of TMX Group Limited, has selected Katipult's SaaS platform to power its new digital deal management service designed to automate workflow for private placements and streamline the issuer and investor onboarding process. Following an extensive evaluation process, TSX Trust selected Katipult's robust technology, rich functional depth and intuitive user experience for its new digital platform. The multiyear agreement between TSX Trust and Katipult will focus on delivering a range of new digital deal management solutions to the market and is expected to be launched by TSX Trust in fourth quarter of 2020.

Appointment of new Board Chair

Following the Corporation's Annual General Meeting at which Directors were appointed, on October 16, 2020 the Board unanimously elected Brian Craig to the position of Chairman of the Board. Marcus Shapiro, having served as Board Chair since 2017, will continue to serve as an Independent Director and has been appointed Chair of the Compensation & Governance Committee

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 has experienced a decrease in its subscription revenue due to churn in 2020. This decrease occurred largely due to market conditions and the Corporation's decision to focus its growth on North America and in the enterprise market. Further, the Corporation has moved away from charging integration revenue as it reduces its emphasis on non-recurring revenue. The Corporation has now built a stronger foundation; both in terms of positioning the Katipult solution for enterprise private capital market companies, and its transition away from customized solutions built largely for the crowdfunding market. While the Corporation did not meet its revenue goal, the Corporation's strategic objectives established at the beginning of 2020 to improve the efficiency of private capital transactions and focus on this underserved market were largely achieved, despite the challenges of COVID-19.. Going into 2021, the Corporation will focus its efforts on driving new MRR and positioning its product to become a leading equity capital markets and alternative lending solution in the enterprise market across North America.

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.

CORPORATE PROFILE

Organization

Katipult Technology Corp. (the “Corporation” or “Katipult”) 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, 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 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.

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 is 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

($ Cdn thousands)	Three months ended September 30, 2020	2019	Nine months ended September 30, 2020	2019
Subscription revenue [1]	**301**	365	**959**	975
Integration revenue [1]	**-**	22	**31**	259
	301	387	**990**	1,234
Cost of revenue	**69**	76	**210**	240
Gross profit [1]	**232**	311	**780**	994
Gross profit percentage [1]	**77.1%**	80.4%	**78.8%**	80.6%

The Corporation continues to expand and improve its product to meet the evolving needs of existing and prospective new customers. Since the latter half of 2018, the Corporation has been 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. Subscription revenue for the three- and nine-month periods decreased to $301 and $959, over the comparable period in fiscal 2019. The decrease in revenue is due to the Corporation's focus on the enterprise market combined with an increase churn in the small customers.

One of the Corporations key metrics is Monthly Recurring Revenue (MRR) [1]. The focus of the management of the Corporation is to grow the MRR through targeting more established customers. Management expects this strategy to generate higher per customer recurring revenue and reduce the current number of smaller customers. The MRR as at September 30, 2020, is $118, a net increase of $8 from the MRR at June 30, 2020. During the quarter, the Corporation increased MRR by $40 from new customers and reduced MRR by $32 from the churn of smaller, less established customers. Churning customers reduced MRR at the beginning of the quarter, while new customers added MRR towards the end of the quarter. .

The Corporation did not have any integration revenue in the second and third quarter of 2020. The Corporation expects to have limited integration revenue as it reduces its emphasis on non-recurring integration revenue.

The gross profit percentage was 77.1% and 78.8% for the three- and nine-month periods ending September 30, 2020 (2019: 80.4% and 80.6%). The lower gross profit was largely due to lower subscription and integration revenue partially offset by lower expenses related to cost of revenue.

SELLING, GENERAL, AND ADMINISTRATION

($ Cdn thousands)	Three months ended September 30, 2020	2019	Nine months ended September 30, 2020	2019
Selling, general, and administrative less share-based payments and bad debt expense	**371**	330	**1,049**	966
Bad debt expense	**58**	33	**119**	76
Share-based payments	**65**	75	**338**	337
Selling, general, and administrative	**494**	438	**1,506**	1,379

Selling, general, and administrative expenses increased in the three- and nine-month periods of 2020 compared to the same period in the prior year. The increase is largely related to additional management hires, increased marketing and sales costs and a larger bad debt expense.

During the three and nine months ended September 30, 2020, the Corporation has taken a larger allowance for bad debts as compared to the same period in the previous year. The larger allowance is the result of more customers having delayed payments as they deal with uncertainties in their own business. The Corporation continues to target more established customers and putting in place processes that mitigate credit risk, including more robust contracts, maintaining a vigilant collection process, credit checks where practical, and establishing a reserve against revenue for estimated uncollectable invoices.

Included in the SG&A expenses is share-based payment of $65 and $338 in the three- and nine-month periods ended September 30, 2020 (2019: $337). 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

	Three months ended September 30,		**Nine months ended September 30,**	
($ Cdn thousands)	**2020**	2019	**2020**	2019
Research and development	**190**	190	**591**	656

Research and development for the three- and nine-month periods ended September 30, 2020 was $190 and $591 (2019: $190 and $656). The decrease in the nine month period 2020 compared to the same period in 2019, is the result of the Corporation being focused more on customer driven functionality enhancements and post-sales support activities.

FOREIGN EXCHANGE

	Three months ended September 30,		**Nine months ended September 30,**	
($ Cdn thousands)	**2020**	2019	**2020**	2019
Foreign exchange	**9**	(7)	**(14)**	9

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

($ Cdn thousands)	Three months ended September 30, 2020	2019	Nine months ended September 30, 2020	2019
Bank related charges	**5**	9	**19**	28
Interest on convertible debentures	**77**	74	**225**	203
Interest on lease obligation	**2**	-	**10**	-
Finance costs	**84**	83	**254**	234
Unrealized loss on convertible debentures	**216**	-	**563**	-

Finance costs increased for the three- and nine-month periods ended September 30, 2020 compared to same period in the prior year mainly due to the increase in convertible debenture accrued interest. The interest on convertible debentures is a non-cash item as the interest is accrued to maturity (or conversion). Interest on lease obligation is related to a new office lease entered in the first quarter of 2020 for the Corporation's new head office.

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.

OTHER INCOME AND EXPENSES

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

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

Other income and expenses in the previous year included amounts that related to a cash prize of $97 (SGD 100) that the Corporation won at the Singapore FinTech Festival - no such transaction occurred in 2020. Government grants earned in 2020 were significantly lower due to the company not qualifying for the same funding that was available to it during its start-up phase.

ADJUSTED EBITDA, TOTAL COMPREHENSIVE INCOME (LOSS), AND CASH FLOW

($ Cdn thousands)	Three months ended September 30, 2020	2019	Nine months ended September 30, 2020	2019
Adjusted EBITDA [1]	**(387)**	(242)	**(979)**	(704)
Total comprehensive income (loss)	**(768)**	(353)	**(2,116)**	(1,015)
Funds provided (used in) by operations [1]	**(391)**	(211)	**(972)**	(465)
Cash flow provided (used in) by operations	**(186)**	(226)	**(693)**	(640)

Adjusted EBITDA losses increased to $387 and $979 (2019: loss $242 and $704) the increased loss was the result of lower subscription and integration revenue and increased higher selling, general and administrative costs, partially offset by lower research and development costs.

The Corporation's net loss and comprehensive loss was $768 and $2,116 for the three- and nine-month periods ended September 30, 2020 (2019: $353 and $1,015). The increased loss is largely due to a increase in the fair value of the Corporation's outstanding convertible debentures arising from the revaluation in addition to higher finance and selling and general expenses and lower recurring revenue It should be noted that the outstanding principal of the convertible debentures remained unchanged at $3,000 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.

For the nine-month period ended September 30, 2020, the funds used in operations increased. The increase is largely due to lower Other Income, lower revenue and a higher selling, general and administrative costs.

FINANCIAL AND OPERATING HIGHLIGHTS - QUARTERLY ANALYSIS

	2020			2019				2018
($ Cdn thousands)	**Q3**	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Subscription revenue [1]	**301**	329	329	329	365	307	303	251
Integration revenue [1]	-	-	31	53	22	77	160	24
Total revenue	**301**	329	360	382	387	384	463	275
Gross profit [1]	**232**	253	295	312	311	306	377	201
Gross profit - percentage [1]	**77.1%**	76.9%	81.9%	81.7%	80.4%	79.7%	81.4%	73.1%
Selling, general, and administrative	**494**	495	517	509	438	447	494	569
Research and development	**190**	219	182	161	190	212	254	257
Adjusted EBITDA [1]	**(387)**	(325)	(267)	(219)	(242)	(224)	(238)	(511)
Net income (loss) and comprehensive income (loss)	**(768)**	(620)	(728)	709	(353)	(343)	(707)	(520)

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

LIQUIDITY AND CAPITAL RESOURCES

Working capital

As at **($ Cdn thousands) - unaudited**	**September 30,** **2020**	December 31, 2019	Increase (decrease) in working capital
Current assets			
Cash and cash equivalents	**1,072**	1,855	(783)
Marketable securities	**97**	-	97
Accounts receivable	**105**	102	3
Prepaid expenses	**16**	2	14
Total current assetes	**1,290**	1,959	(669)
Current liabilities			
Accounts payable and accrued liabilities	**299**	**291**	8
Deferred revenue	**439**	**138**	301
Current portion of lease obligation	**33**	**-**	33
Total current liabilities	**771**	**429**	342
Working capital (1)	**519**	**1,530**	(1,011)

The key driver of the change in working capital is the $783 decrease in cash, $301 increase in deferred revenue, and $97 of the Corporation cash was placed into a government investment certificates.

Liquidity

At September 30, 2020 the Corporation had $1,072 (December 31, 2019: $1,855) of cash on hand and an additional $97 was held in government investment certificates (December 31, 2019: $nil).

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 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 regularly reviews its level of capital resources and actively manages its affairs. This review will consider factors such as the current economic environment, changes in demand for the Corporation's services, capital spending requirements, foreign exchange rates, working capital needs, and profitability of the Corporation's operations, any of which could materially affect the Corporation's ability to meet its obligations.

Additional financing may be necessary in a variety of circumstances, including the requirement of working capital to ramp up operations, the occurrence of adverse circumstances, fluctuations in foreign currency translation, or the decision to expand geographically into new markets or by acquisition. In addition, in order to maintain or adjust its capital structure, the Corporation may issue new shares, new debt, or scale back the size and nature of its operations.

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

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.

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. 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	68,633,663
Shares issued on conversion of restricted share units	645,653
Balance as at September 30, 2020 and November 20, 2020	69,279,316

Common shares

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.

(a) 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 quarters 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.

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 $0.24 per common share. There were no outstanding RSUs as at September 30, 2020.

CONVERTIBLE DEBENTURES

As at **($ Cdn thousands)**	**September 30,** **2020**	December 31, 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**

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 common 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.

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.

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:

	Three months ended September 30,		**Nine months ended September 30,**	
($ Cdn thousands)	**2020**	2019	**2020**	2019
Net loss	**(768)**	(353)	**(2,116)**	(1,015)
Plus:				
Depreciation and amortization	**8**	-	**22**	1
Finance costs	**84**	83	**254**	234
Unrealized loss on convertible debentures	**216**	-	**563**	-
Foreign exchange	**9**	(7)	**(14)**	9
Share-based payments	**65**	75	**338**	337
Other income	**(1)**	(40)	**(26)**	(270)
Adjusted EBITDA	**(387)**	(242)	**(979)**	(704)

"**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) - unaudited**	**September 30, 2020**	December 31, 2019	Increase (decrease) in working capital
Current assets			
Cash and cash equivalents	**1,072**	1,855	(783)
Marketable securities	**97**	-	97
Accounts receivable	**105**	102	3
Prepaid expenses	**16**	2	14
Total current assetes	**1,290**	1,959	(669)
Current liabilities			
Accounts payable and accrued liabilities	**299**	**291**	8
Deferred revenue	**439**	**138**	301
Current portion of lease obligation	**33**	**-**	33
Total current liabilities	**771**	**429**	342
Working capital	**519**	**1,530**	(1,011)

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" 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.

"Monthly recurring revenue (MRR)" is used by management as a measure of their performance as a SaaS company. Management is focused on increasing the Corporation's MRR with strategic development of the customer base. MRR is the sum of the monthly subscription revenue of the customers that have services as at the date disclosed.

COMMITMENTS AND CONTINGENCIES

As of September 30, 2020, in the normal course of business, other than in relation to the convertible debentures and the office lease noted below, the Corporation has no material obligations to make future payments, representing contracts and other commitments that are known and committed.

During the first quarter of 2020, the Corporation entered into a sublease for new head office space which expires on July 30, 2022.

As at **($ Cdn thousands)**	**September 30, 2020**
Maturity analysis – contractual undiscounted cash flows	
Less than one year	**43**
One to five years	**33**
More than five years	**-**
Total undiscounted lease liabilities	**79**

NEW STANDARDS AND INTERPRETATIONS ADOPTED

No new standards or amendments to existing standards have been issued by the International Accounting Standards Board (IASB) that are effective after December 31, 2019 that effect these condensed interim financial statements.

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.

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 identified 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, but not limited to, the following ongoing operational risks - which are more fully described in the Corporation's MD&A for the year ended December 31, 2019:

- Ability to Manage Future Growth
- Fluctuation in Quarterly Results
- Lengthy Sales and Implementation Cycle
- Cyber Risks
- Risks Related to Cloud Based Solutions
- Failure to Continue to Adapt to Technological Change and New Product Development
- Dependence on Management and Key Employees
- Competition
- Protection of Intellectual Property
- Economic Conditions
- Pandemic Diseases – COVID-19 Response
- Privacy Concerns and Legislation
- Regulatory Environment
- Risk Associated with a Change in the Company's Pricing Model
- Risk of Defects in the Corporation's Solution
- Dependence on Market Growth
- Operational Service Risk
- Dependence on Partners
- Delay or Failure to Realize Anticipated Benefits of Key Account Installations

CORPORATE INFORMATION

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Directors

Brian Craig
Chair of the Board

Jeff Dawson
Audit Committee Chair

Marcus Shapiro
Compensation and Governance Chair

Gord Breese
President & Chief Executive Officer

Brock Murray
Head of Global Development

Pheak Meas
Chief Product Officer

Officers and Board Secretary

Gord Breese
President & 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

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