



2020

Annual Financial Statements

Katapult Technology Corp.

December 31, 2020



Management Report

These financial statements have been prepared by management in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IASB"). These financial statements also include certain amounts based on estimates and judgements.

Management has determined such amounts on a reasonable basis to ensure that the financial statements are presented fairly in all material respects. All information in this report is the responsibility of management.

Management has established systems of internal control, including disclosure controls and procedures, which are designed to provide reasonable assurance that financial and non-financial information that is disclosed is timely, complete, relevant and accurate. These systems of internal control also serve to safeguard the Corporation's assets.

The Board of Directors is responsible for the governance of the Corporation, including reviewing and approving the financial statements. The Board carries out this responsibility principally through its Audit Committee.

The Audit Committee of the Board of Directors, composed of independent directors, meets with management and the external auditors to satisfy itself that each is properly discharging its responsibilities, and to review the financial statements and management discussion and analysis. The Audit Committee reports its findings to the Board of Directors for its approval of such statements for issuance to the shareholders.

The financial statements have been audited by RSM Alberta LLP, the independent external auditors, in accordance with Canadian auditing standards on behalf of the shareholders. The auditor's report outlines the scope of their examination and sets forth their opinion.

Approved by the Board:

"signed" Jeff Dawson
Director

"signed" Gord Breese
Director

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Katapult Technology Corp.

Opinion

We have audited the financial statements of Katapult Technology Corp., (the "Corporation"), which comprise the statements of financial position as at December 31, 2020 and 2019 and the statements of operations and comprehensive loss, changes in shareholders' deficiency and cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2020 and 2019, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Corporation in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 2 in the financial statements, which indicates that the Company incurred a net loss of \$1,877,000, and had cash outflows from operating activities of \$1,015,000, during the year ended December 31, 2020. As at December 31, 2020, the Company also has a deficit of \$5,050,000. These events or conditions, along with other matters as set forth in Note 2, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis (MD&A).

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

We obtained the report prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Corporation's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Corporation or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Corporation's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Corporation's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Corporation to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Terry Booth.

RSM Alberta LLP

Chartered Professional Accountants
April 20, 2021
Calgary, Alberta



STATEMENTS OF FINANCIAL POSITION

As at (\$ Cdn thousands)	Note	December 31, 2020	December 31, 2019
Assets			
Current assets			
Cash and cash equivalents		865	1,855
Accounts receivable	3	40	102
Prepaid expenses		10	2
Total current assets		<u>915</u>	1,959
Property and equipment	4	4	6
Right of use asset	5	46	-
Total assets		<u>965</u>	1,965
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	16	221	291
Deferred revenue		433	138
Current portion of lease obligation	5	33	-
Total current liabilities		<u>687</u>	429
Lease obligation	5	23	-
Loan payable	6	15	-
Convertible debentures	7	2,662	2,295
Total liabilities		<u>3,387</u>	2,724
Shareholders' Deficiency			
Share capital	9	2,186	2,005
Contributed surplus		442	409
Deficit		(5,050)	(3,173)
Total shareholders' deficiency		<u>(2,422)</u>	(759)
Total liabilities and shareholders' deficiency		<u>965</u>	1,965

Going concern 2 (d)
Subsequent events 6, 9 (b), 19, 20

(See Notes to the Financial Statements)

Approved on behalf of the Board:

“signed” Jeff Dawson
Director

“signed” Gord Breese
Director



STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
For the years ended December 31,
(\$ Cdn thousands, except per share amounts)

	Note	2020	2019
Revenue	13	1,319	1,616
Cost of revenue	14	286	310
Gross profit		1,033	1,306
Expenses			
Selling, general, and administrative	14	1,729	1,888
Research and development	14	786	817
Foreign exchange		(2)	17
Depreciation and amortization		29	1
Other income	15	(36)	(297)
Loss before finance costs, unrealized loss (gain) on convertible debentures and income taxes recovery		(1,473)	(1,120)
Finance costs	14	359	326
Unrealized loss (gain) on convertible debentures	7	45	(1,133)
Loss before income taxes		(1,877)	(313)
Income taxes recovery		-	7
Net loss and comprehensive loss		(1,877)	(306)
Loss per share			
Basic / Diluted	11	(0.03)	(0.00)

(See Notes to the Financial Statements)



STATEMENTS OF CHANGES IN SHAREHOLDERS' DEFICIENCY

For the years ended December 31, 2020 and 2019

(\$ Cdn thousands, except share amounts)

	Note	Common Shares	Share Capital	Contributed surplus	Deficit	Total shareholders' deficiency
Balance at December 31, 2019		68,633,663	2,005	409	(3,173)	(759)
Net loss and comprehensive loss		-	-	-	(1,877)	(1,877)
Shares issued on conversion of restricted share units	9	645,653	181	(181)	-	-
Share-based payments	14	-	-	214	-	214
Balance at December 31, 2020		69,279,316	2,186	442	(5,050)	(2,422)
Balance at December 31, 2018		67,909,793	1,687	227	(2,867)	(953)
Net loss and comprehensive loss		-	-	-	(306)	(306)
Shares issued on conversion of restricted share units	9	483,870	287	(287)	-	-
Shares issued on exercise of stock options	9	240,000	31	(7)	-	24
Share-based payments	14	-	-	476	-	476
Balance at December 31, 2019		68,633,663	2,005	409	(3,173)	(759)

(See Notes to the Financial Statements)



STATEMENTS OF CASH FLOWS
For the years ended December 31,
(\$ Cdn thousands)

	Note	2020	2019
Cash flows provided by (used in)			
Operating activities			
Net loss and comprehensive loss		(1,877)	(306)
Adjustments for:			
Depreciation and amortization	4, 5	29	1
Foreign exchange		(2)	17
Finance costs	14	359	326
Unrealized loss (gain) on convertible debentures	7	45	(1,133)
Share-based payments	14	214	476
Other		(14)	(21)
Interest - paid		(37)	(51)
Interest - received		4	18
Funds used in operations before change in non-cash working capital		(1,279)	(673)
Change in non-cash working capital	18	264	(20)
Total funds used in operating activities		(1,015)	(693)
Investing activities			
Purchase of property and equipment	4	-	(1)
Total funds used in investing activities		-	(1)
Financing activities			
Repayment of lease obligation	5	(17)	-
Proceeds from exercised stock options	9	-	24
Proceeds from loan payable	6	40	-
Total funds provided by financing activities		23	24
Effect of translation of foreign currency cash		2	(14)
Net decrease in cash		(990)	(684)
Cash and cash equivalents, beginning of period		1,855	2,539
Cash and cash equivalents, end of period		865	1,855

(See Notes to the Financial Statements)



NOTES TO THE 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. During the year ended December 31, 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 and vary depending on the work involved.

2. BASIS OF PREPARATION

(a) Statement of compliance:

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). Details of the Corporation's accounting policies are discussed in note 19.

The financial statements were authorized for issue by the Board of Directors on April 20, 2021.

(b) 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 (note 2(f)).



NOTES TO THE FINANCIAL STATEMENTS

(\$ Cdn thousands, except as noted)

(c) 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.

(d) 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.

As at December 31, 2020, the Corporation's cash and cash equivalents were \$865 (December 31, 2019: \$1,855). The Corporation had a positive net working capital position of \$228 (December 31, 2019: \$1,530). However, the Corporation had a net loss for the year ended December 31, 2020 of \$1,877 (2019: \$306), used cash in operations of \$1,015 (2019: \$693), and had a deficit of \$5,050 at December 31, 2020 (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 December 31, 2020 is uncertain. 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.

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 severity of these developments and the impact on the financial results and condition of the Corporation in future periods and, accordingly, the going concern uncertainty.

(e) Use of estimates and judgements:

The preparation of the financial statements in conformity with IFRS requires management to make judgements, estimates, and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenues, and expenses. Actual results may differ from these judgements and estimates.



NOTES TO THE FINANCIAL STATEMENTS

(\$ Cdn thousands, except as noted)

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

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

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

- **Measuring deferred income taxes.** Key estimates and assumptions include the availability of future taxable earnings as explained above, timing of reversals for temporary differences, and future enacted tax rates.
- **Revenue recognition.** Estimates are also used to determine the stand-alone selling price of performance obligations and the allocation of the transaction price between performance obligations. When contracts involve more than one distinct performance obligation, consideration is allocated amongst the obligations based on their relative estimated stand-alone selling prices. The best evidence of a stand-alone selling price is the observable price of a service when the entity sells that good or service separately in similar circumstances and to similar customers. In certain circumstances, when a stand-alone selling price is not observable, management estimates the stand-alone selling price by utilizing an expected cost-plus margin approach.
- **Allowance for uncollectible accounts receivable.** Management makes use of estimates when making allowances for uncollectible accounts receivable. Management evaluates each receivable at year end using factors such as age of receivable, payment history, and credit risk. The calculation of the allowance is based on the lifetime expected credit loss.



NOTES TO THE FINANCIAL STATEMENTS

(\$ Cdn thousands, except as noted)

- **Fair value of convertible debentures.** Management makes use of estimates and assumptions in the calculation of the initial fair values of convertible debenture derivative liabilities and subsequent re-measurements are made at fair value at each reporting date using a probability-weighted scenario approach.
- **Share-based payments.** Management makes use of estimates and assumptions in the calculation of the share-based payments of restricted share units and stock options using the Black-Scholes option-pricing model.
- **Right of use assets and lease obligations.** Management makes use of estimates and assumptions in the calculation of the right of use assets and lease obligations. These estimates include calculating the appropriate discount rate to use, estimating the lease term, and estimating variable lease payments.

(f) Measurement of fair values:

A number of the Corporation's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

Share-based payment transactions

The fair values of restricted share units issued, and options granted to purchase common shares, are measured based on the share price on the date of issuance or grant. The fair values of the stock options and warrants are estimated using the Black-Scholes option-pricing model.

Convertible debentures

The fair value of the convertible debentures is estimated using a probability-weighted multi-scenario model based on the host liability and embedded derivatives of the instrument. This estimate is measured using a Black-Scholes option-pricing model, combined with a present-value calculation, with probability weighting assigned to various components of the instrument.

(g) Fair value hierarchy:

When measuring the fair value of an asset or liability, management uses market observable data to the extent possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3: unobservable inputs for the asset or liability.

If the inputs used to measure the fair value of an asset or a liability might be categorized in different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

Management recognizes transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred. All assets and liabilities are measured at historical value for the years ended



NOTES TO THE FINANCIAL STATEMENTS

(\$ Cdn thousands, except as noted)

December 31, 2020 and 2019, other than the convertible debentures, which are measured at fair value based on level 3 valuation model as described in note 7.

3. ACCOUNTS RECEIVABLE

As at (\$ Cdn thousands)	December 31, 2020	December 31, 2019
Accounts receivable	40	102

As at December 31, 2020, based on a detailed assessment of the amounts due from the Corporation's specific clients, the Corporation recorded an allowance for doubtful accounts receivable of \$89 (2019: \$59).

4. PROPERTY AND EQUIPMENT

Property and equipment as at and for the years ended December 31, 2020, and 2019 were as follows:

(\$ Cdn thousands)	Computer hardware	Total
Costs		
Balance at December 31, 2018	7	7
Additions	1	1
Balance at December 31, 2019	8	8
Additions	-	-
Balance at December 31, 2020	8	8
Accumulated depreciation		
Balance at December 31, 2018	(1)	(1)
Depreciation	(1)	(1)
Balance at December 31, 2019	(2)	(2)
Depreciation	(2)	(2)
Balance at December 31, 2020	(4)	(4)
Carrying amount		
Balance at December 31, 2018	6	6
Balance at December 31, 2019	6	6
Balance at December 31, 2020	4	4



NOTES TO THE FINANCIAL STATEMENTS

(\$ Cdn thousands, except as noted)

5. RIGHT OF USE ASSET

The Corporation's lease consists of office space.

Right of use assets

(\$ Cdn thousands)	
Cost	
At December 31, 2019	-
Addition	73
At December 31, 2020	<u>73</u>
Accumulated depreciation	
At December 31, 2019	-
Depreciation	27
At December 31, 2020	<u>27</u>
Carrying amount	
At December 31, 2019	-
At December 31, 2020	<u>46</u>

Lease obligation

(\$ Cdn thousands)	
Balance as at December 31, 2019	-
Addition	73
Repayment of lease obligation	(17)
Balance as at December 31, 2020	56
Less: current lease obligation	33
Long-term lease obligation	<u>23</u>

Undiscounted cash outflows related to the lease obligation are:

As at	December 31,
(\$ Cdn thousands)	
Maturity analysis - contractual undiscounted cash flows	
Less than one year	41
One to five years	24
More than five years	-
Total undiscounted lease obligation	<u>65</u>

During the year ended December 31, 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 obligation.



NOTES TO THE FINANCIAL STATEMENTS

(\$ Cdn thousands, except as noted)

Katapult has short-term lease agreements on a month-to-month basis at multiple global office locations. Lease expenses on short-term leases are included in general and administrative expenses in the statements of operations and comprehensive loss. The Corporation does not have any contingent rental or sublease payments, nor any sublease income.

6. LOAN PAYABLE

Canadian Emergency Business Account (“CEBA”) Loan

During the year ended December 31, 2020, the Corporation was approved for repayable financing of a \$40 operating line of credit under the government of Canada’s CEBA loan program, bearing interest at 0%. The terms are as follows:

- On January 1, 2021, the line of credit will automatically convert to a two-year term loan bearing interest at 0%, to be repaid on December 31, 2022. There is the option to extend the loan by three years on December 31, 2022, and if this extension is exercised, the term loan will mature on December 31, 2025, at which time the balance must be repaid in full.
- The loan is interest-free until January 1, 2023. Commencing January 1, 2023, interest accrues on the outstanding balance at a rate of 5% per annum, payable monthly on the last day of each month.
- If \$30 of the balance of the term loan as at January 1, 2021, is repaid in full on or before December 31, 2022, the remaining \$10 balance of the term loan will be forgiven.

The loan was initially recorded at the fair value of \$15. The \$10 forgivable portion has been recorded as a government grant (note 15). The initial discount of \$15 on recognition of the loan at fair value has been recorded as deferred revenue and the grant recognition and related accretion for the year ended December 31, 2020, has been included in government grants and interest expense in the statements of operations and comprehensive loss.

Subsequent to year end, in the second phase of the program, the Corporation received an additional \$20, of which \$10 is forgivable.

7. CONVERTIBLE DEBENTURES

During the year ended December 31, 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. During the year ended December 31, 2018, a convertible debenture holder elected to convert their \$50 of convertible debentures plus accrued interest payable into 100,293 common shares.

As at	December 31,	
(\$ Cdn thousands)	2020	December 31, 2019
Balance at the beginning of period	2,295	3,153
Interest accrued during the period	322	275
Unrealized loss (gain) on convertible debentures	45	(1,133)
Balance at the end of the period	2,662	2,295



NOTES TO THE FINANCIAL STATEMENTS

(\$ Cdn thousands, except as noted)

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. The face value of \$3,000, plus all accrued interest, will be repayable on maturity, if not converted prior to this date.

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

As at	December 31,	December 31,
(\$ Cdn thousands)	2020	2019
Face value	3,000	3,000
Interest accrued	750	428
Face value plus accrued interest	3,750	3,428
Fair value adjustment	(1,088)	(1,133)
Balance at the end of the period	2,662	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)).

Throughout the year ended December 31, 2020, the Corporation's monthly cash burn rate such that the accrued annual rate of interest payable was between 8.50% and 11.97% (compounded quarterly). The \$3,000 outstanding in convertible debentures can be converted into shares at the election of debenture holders at any time at a conversion price of \$0.51.

As at December 31, 2020, the unpaid accrued interest payable was \$750 (December 31, 2019: \$428). The unpaid accrued interest payable can be converted to shares, at the election of the debenture holders, at any time, at the volume-weighted average trading price per shares for common shares over ten consecutive trading days ending on the trading day before the conversion date.

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.



NOTES TO THE FINANCIAL STATEMENTS

(\$ Cdn thousands, except as noted)

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, 2020 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 39.4% (2019: 41%), interest payments of 8.5% to 12.0%, and a remaining expected term of 2.4 years (2019: 3.4 years), as at December 31, 2020. The fair value of the conversion feature is determined using a Black-Scholes model with a volatility of 125% (2019: 125%), a risk-free rate of interest of 0.20% (2019: 1.69%), a stock price of \$0.25 (2019: \$0.17) per share, and a remaining expected life of 2.4 years (2019: 3.4 years), as at December 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 debt of \$43. A 1% increase in the discount rate would result in a decrease in the fair value of the convertible debt of \$45. Comparable decreases in each of the share price and discount rate would result in a comparable opposite change in the convertible debenture.

8. INCOME TAXES

The components of taxes expenses for the years ended 2020 and 2019 are as follows:

For the year ended December 31, (\$ Cdn thousands)	2020	2019
Income taxes - current	-	(7)
Income taxes - deferred	-	-
	<u>-</u>	<u>(7)</u>

Factors affecting tax expense (recovery) for the year:

For the year ended December 31, (\$ Cdn thousands)	2020	2019
Loss before income taxes	(1,877)	(313)
Statutory tax rate	24.0%	26.5%
Expected tax (recovery) expense	(450)	(83)
Non-deductible items	52	125
Change in rates and other items	36	65
Change in deferred tax assets not recognized	362	(114)
	<u>-</u>	<u>(7)</u>

The change in statutory tax rate resulted from a decrease in the Alberta corporate income tax rate in 2020.

Deferred assets are recognized for tax loss carryforwards to the extent that the realization of the related tax benefit through future taxable profits is probable. The ability to realize the tax benefits of these losses is dependent upon a number of factors, including future profitability of operations in the jurisdictions in which the tax losses arose.



NOTES TO THE FINANCIAL STATEMENTS

(\$ Cdn thousands, except as noted)

As at December 31, 2020, the Corporation has unrecognized deferred tax assets of \$823 related to relating to non-capital tax losses of \$4,624 that will expire between 2037 and 2040 and other temporary differences between tax and accounting, as it is uncertain whether future taxable profit will be available against which the Corporation can use the benefits therefrom.

9. 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	9 (b)	240,000	31
Balance, December 31, 2019		68,633,663	2,005
Shares issued on conversion of restricted share units	9 (b)	645,653	181
Balance, December 31, 2020		69,279,316	2,186

At December 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' Deficiency 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 whereby a maximum of 10% of the issued and outstanding Shares, from time to time, may be reserved for issuance pursuant to the exercise of options. Under the terms of the stock option plan, options may be granted only to: (i) employees, officers, directors, and consultants of the Corporation; and (ii) employees, officers, directors, and consultants of an affiliate of the Corporation.

During the year ended December 31, 2019, the Corporation granted 3,300,000 stock options and 240,000 stock options were exercised for \$24 in cash resulting in the issuance of 240,000 shares. The share price at the time of exercise was \$0.24 and \$0.25 per common share. The share price during the year ended December 31, 2019, averaged \$0.25 per common share.

During the year ended December 31, 2020, 600,000 stock options were granted, and 2,067,500 options were forfeited. The share price during the year ended December 31, 2020 averaged \$0.26 per common share.

As at December 31, 2020, 2,600,000 options were exercisable (December 31, 2019: 2,775,833).

Subsequent to year end, 1,600,000 stock options were exercised for \$160 in cash and 750,000 were forfeited.



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(\$ Cdn thousands, except as noted)

The following summarizes the changes in outstanding options:

	2020		2019	
	Number	Weighted average exercise price (CND\$)	Number	Weighted average exercise price (CND\$)
Outstanding - beginning of year	6,342,500	0.22	3,282,500	0.16
Granted	600,000	0.24	1,975,000	0.26
Forfeited	(2,067,500)	0.34	-	-
Exercised	-	-	(240,000)	0.10
Outstanding - end of the year	4,875,000	0.17	5,017,500	0.22
Exercisable - end of the year	2,600,000	0.10	15,000	0.12

The range of exercise prices and remaining life for the options outstanding and exercisable at December 31, 2020 is as follows:

	Total options outstanding			Exercisable options	
	Number	Weighted average exercise price (CDN \$)	Weighted average remaining life (years)	Number	Weighted average exercise price (CDN \$)
2017	2,600,000	0.10	1.65	2,600,000	0.10
2019	1,675,000	0.24	3.69	-	-
2020	600,000	0.25	4.92	-	-
	4,875,000	0.17	2.75	2,600,000	16,250.00

The Corporation uses the Black-Scholes option-pricing model to determine the estimated fair value of the options granted. The weighted average fair value of options granted during the years ended December 31, 2020 and 2019 were \$0.17 and \$0.22 per share, respectively, using graded vesting.

The calculation was based on the following assumptions:

For options granted in the year ended December 31,	2020	2019
Share price (CDN \$)	0.23	0.26
Exercise price (CDN \$)	0.25	0.26
Volatility (%)	125.0	125.0
Expected life (years)	5.0	5.0
Dividend yield (%)	-	-
Forfeiture rate (%)	-	-
Risk free interest rate (%)	0.5	1.4

The Corporation has calculated volatility based on that of selected comparative industry peers.



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(\$ Cdn thousands, except as noted)

Restricted Share Unit Plan

The Corporation has a Restricted Share Unit plan ("RSU Plan"), under which it can grant restricted share units ("RSUs") to directors and management.

On March 16, 2019, the Corporation granted 40,323 RSUs to the Board Secretary. These RSUs were valued at \$0.18 per RSU, being the value of the Corporation's common shares on the issuance date. These RSUs vested during 2019 and were issued on October 9, 2019. The share price at the time of issuance was \$0.29 per common share.

On September 25, 2019, the Corporation granted RSUs to each of its three independent directors and its Board Secretary (the "2019 RSU Recipients"). In aggregate, 645,653 RSUs were granted. These grants represented compensation to the 2019 RSU Recipients for their respective service to the Corporation as Directors and as Board Secretary. Each RSU represents the right to receive one common share of the Corporation upon vesting. All of the RSUs granted on September 25, 2019, vested on September 1, 2020, subject to the terms and conditions set forth in the RSU Plan.

The RSUs were valued at \$0.28 per RSU, being the Corporation's common share price on the grant date. The RSUs vested 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.

On December 1, 2020, the Corporation granted RSUs to each of its three independent directors (the "2020 RSU Recipients"). In aggregate, 493,750 RSUs were granted. These grants represented compensation to the 2020 RSU Recipients for their respective service to the Corporation as Directors. Each RSU represents the right to receive one common share of the Corporation upon vesting. All of the RSUs granted on December 1, 2020 will vest on September 1, 2021, subject to the terms and conditions set forth in the RSU Plan. The RSUs are valued at \$0.24 per RSU, being the Corporation's common share price on the issuance date.

10. CAPITAL MANAGEMENT

Capital disclosures provide information about:

1. the Corporation's objectives, policies, and processes for managing capital,
2. quantitative data about what the Corporation regards as capital,
3. whether the Corporation has complied with any capital requirements, and
4. if it has not complied, the consequences of such non-compliance.

The Corporation's objectives for managing capital are:

1. to safeguard the Corporation's ability to continue as a going concern, so that it can provide adequate returns for shareholders and benefits for other stakeholders,
2. to ensure sufficient liquidity to enable the internal financing of capital, thereby facilitating its ability to continue operations and eventually achieve profitable operations, and
3. to maintain a strong capital base so as to maintain investor, creditor and market confidence.

The Corporation considers the items included in capital to include shareholders' equity (deficiency) and convertible debentures. The Corporation manages its capital structure and adjusts 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



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(\$ Cdn thousands, except as noted)

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.

As at December 31, 2020, shareholders' deficiency was \$2,422 (December 31, 2019 \$759) and the convertible debentures have a carrying value of \$2,662 (December 31, 2019: \$2,295).

11. EARNINGS PER SHARE

Basic earnings per share and diluted earnings per share for the year ended December 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 year:

For the year ended December 31,		
(\$ Cdn thousands, except per share amounts)	2020	2019
Weighted average number of common shares		
Basic	68,833,004	68,056,646
Diluted	68,833,004	68,056,646

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 anti-dilutive:

- 4,875,000 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 December 31, 2020, the unpaid accrued interest payable of \$750 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
- 493,750 restricted share units.



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(\$ Cdn thousands, except as noted)

12. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Corporation's financial instruments include cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, lease obligation, loan payable, and convertible debentures.

The following shows the fair value and carrying values of the financial instruments:

As at December 31, (\$ Cdn thousands)	2020		2019	
	Fair Value	Carrying Value	Fair Value	Carrying Value
Loans and receivables:				
Cash and cash equivalents	865	865	1,855	1,855
Accounts receivable	40	40	102	102
Financial liabilities measured at amortized costs:				
Accounts payable and accrued liabilities	221	221	291	291
Lease obligation	56	56	-	-
Loan payable	15	15	-	-
Financial liabilities measured at fair value through profit and loss:				
Convertible debentures	2,662	2,662	2,295	2,295

Katapult has estimated the fair value amounts using appropriate valuation methodologies and information available to management as of the valuation dates. The following methods and assumptions were used to estimate the fair value of each class of financial instrument for which it was practicable to estimate that value:

- **Cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, lease obligation, and loans payable.** The carrying amounts approximate fair value because of the short maturity of these instruments.
- **Convertible debentures.** 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. This estimate is measured using a Black-Scholes option pricing model, combined with a present-value calculation, with probability weighting assigned to various components of the instrument. For details refer to note 7.

Nature and Extent of Risks Arising from Financial Instruments

Katapult is exposed to a number of market risks arising through the use of financial instruments in the ordinary course of business. Specifically, Katapult is subject to credit risk, liquidity risk, currency risk, and interest rate risk.

This note presents information about the Corporation's exposure to each of the above risks, the Corporation's objectives, policies and processes for measuring and managing risk, and the Katapult's management of capital. The Board of Directors has overall responsibility for the establishment and oversight of the Corporation's risk management framework. Katapult's management identifies and analyzes the risks faced by the Corporation and manages/monitors these risks, including the impact of changes in market conditions and changes in the Corporation's activities.



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(\$ Cdn thousands, except as noted)

As at December 31, 2020 (\$ Cdn thousands)	Risk			
	Credit	Liquidity	Market risks	
			Currency	Interest rate
Measured at cost or amortized cost				
Cash and cash equivalents	X		X	
Accounts receivable	X		X	
Accounts payable and accrued liabilities		X	X	
Lease obligation		X		
Loan payable		X		X

Credit risk

Credit risk is the risk of financial loss to the Corporation if a counterparty to a financial instrument fails to meet its contractual obligations.

The Corporation manages credit risk by holding its cash and cash equivalents with major financial institutions.

Katapult is exposed to credit risk related to accounts receivable as a result of extending credit to customers for services performed, creating exposure on accounts receivable balances with trade customers. This exposure to credit risk is managed through a corporate credit policy whereby upfront evaluations are performed on all customers and credit is granted based on payment history, financial conditions, and anticipated industry conditions. Customer payments are continuously monitored to ensure the creditworthiness of all customers with outstanding balances and a provision for doubtful accounts is established based on lifetime expected credit loss.

The following is a reconciliation of the change in the credit risk provision:

For the years ended December 31, (\$ Cdn thousands)	2020	2019
Balance at the beginning of year	59	44
Increase in reserve recorded in the statement of operations	130	75
Write-offs charged against the reserve	(100)	(60)
Balance at the end of year	89	59

As at December 31, 2020, Katapult had accounts receivable of \$89 (December 31, 2019: \$40) that were greater than 90 days for which the provision had been established. It is the Corporation’s intention to vigorously pursue the collection of the amounts provided for.

Liquidity risk

Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations as they become due. Katapult actively manages its liquidity through daily, weekly, and longer-term cash outlook and debt management strategies. The Corporation’s policy is to ensure that sufficient resources are available either from cash balances or cash flows, to ensure all obligations are met as they fall due.



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(\$ Cdn thousands, except as noted)

The following maturity analysis shows the remaining contractual maturities for the face value of the Corporation's financial liabilities:

(\$ Cdn thousands)	After 1 year		After 3 years	
	Less than 1 year	less than 3 years	less than 5 years	After 5 years
Accounts payable and accrued liabilities	221	-	-	-
Lease obligation	41	24	-	-
Loan payable	-	30	-	-
Convertible debentures, including accrued interest	-	3,750	-	-

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. 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.

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the Corporation's income or the value of its financial instrument holdings. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the returns. The Corporation is subject to market rate risk on the calculation of fair value of the convertible debentures. The convertible debenture fair value of the conversion feature is determined using a Black-Scholes model, which is affected by changes in the Corporation's stock price.

Currency risk

The Corporation has customers in a variety of countries and transacts in several currencies. Future fluctuations in exchange rates will have an effect on the Corporation's operating results, financial position, and cash flows. The Corporation is also exposed to currency risk on working capital and borrowings that are denominated in currencies other than Katapult's functional currency, being the Canadian dollar.

Sensitivity analysis:

A strengthening of the Canadian dollar against the US dollar by 100 basis points at December 31, 2020, would have decreased net earnings by \$1 (2019: \$1), other comprehensive income, total comprehensive income, and equity by \$1 (2019: \$1). The analysis assumes that all other variables, interest rates in particular, remain constant. A weakening



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(\$ Cdn thousands, except as noted)

of the Canadian dollar by 100 basis points at December 31, 2020 and 2019 would have had an equal but opposite effect on net earnings, and equity, on the basis that all other variables remain constant.

Interest rate risk

The Corporation's objective in managing interest rate risk is to monitor expected volatility in interest rates while also minimizing financing expense levels. Interest rate risk mainly arises from fluctuations of interest rates on the convertible debentures, which can vary between 8.5% and 12.0% as a result of the level of cash burn, as compared to the cash balance. On an ongoing basis, management monitors changes in short-term rates and considers long-term forecasts to assess potential cash flow impacts to the Corporation.

Sensitivity analysis:

The Corporation is not subject to interest rates cash flow risk but is subject to interest rate price risk as its convertible debenture does not vary as a result of changes in market interest rates but can vary as a result of the level of cash burn versus cash balance. Interest on the Corporation's loan payable also does not vary as a result in changes in market interest rates or other factors.

13. REVENUE

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.

For the year ended December 31,		
(\$ Cdn thousands)	2020	2019
Subscription revenue	1,288	1,304
Integration revenue	31	312
Total revenue	1,319	1,616

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 is comprised of 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.

Significant customers

For the years ended December 31, 2020, the Corporation had two significant customers that provided more than 10% of the total revenue (2019: one significant customer).



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(\$ Cdn thousands, except as noted)

Revenue by geographic location

For the year ended December 31, (\$ Cdn thousands)	2020	2019
Canada	558	399
United States	123	345
United Kingdom	271	341
Ireland	118	109
Singapore	104	149
Other	249	273
	1,319	1,616

14. 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 year ended December 31, (\$ Cdn thousands)	2020	2019
Expenses		
Salaries, subcontractors, and benefits	1,813	1,530
Marketing and sales costs	73	151
External services and facilities	571	783
Bad debt expense	130	75
Share-based payments	214	476
	2,801	3,015
Allocated to:		
Cost of revenue	286	310
Selling, general, and administrative	1,729	1,888
Research and development	786	817
	2,801	3,015
Finance costs		
Bank related charges	26	48
Interest on convertible debentures	322	275
Interest on lease obligation	11	-
Other interest and charges	-	3
Total finance costs	359	326



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(\$ Cdn thousands, except as noted)

15. OTHER INCOME

For the year ended December 31, (\$ Cdn thousands)	2020	2019
Other and interest income	(11)	(115)
Government grants	(25)	(182)
Total other income	(36)	(297)

16. RELATED PARTY TRANSACTIONS

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

Related party balances

As at December 31, 2020, \$6 (December 31, 2019: \$10) included in accounts payable and accrued liabilities is an amount payable to an accounting firm where an officer of the Corporation is a partner. The amount due was not collateralized and was due on normal trade terms. Total professional fees incurred with this related party during the year ended December 31, 2020 were \$119 (2019: \$114) and share-based payments were negative \$24 for 2020 (2019: positive \$113).

As at December 31, 2020, one of the directors of the Corporation held convertible debentures with a face value of \$1,000 (December 31, 2019: \$1,000) plus unpaid accrued interest payable with a value of \$250 (December 31, 2019: \$142). Upon the issuance of the convertible debentures, which was entered into in the normal course of business, the individual became director of the Corporation.

Key management compensation

Key management personnel are persons having authority and responsibility for planning, directing, and controlling the activities of the Corporation. Katapult has identified key management personnel as directors and executives officers.

The following discloses the amounts recognized as expense during the year related to directors and key management personnel compensation, excluding payments made to the accounting firm in which the CFO is a partner, disclosed above:

For the year ended December 31, (\$ Cdn thousands)	2020	2019
Salaries, subcontractors, and benefits	505	354
Share-based payments to executive officers and department heads	-	-
Share-based payments to board of directors and board secretary	124	327
	629	681



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(\$ Cdn thousands, except as noted)

17. COMMITMENTS AND CONTINGENCIES

Commitments

As at December 31, 2020, in the normal course of business, other than in relation to the convertible debentures, the Corporation has no material obligations to make future payments, representing contracts and other commitments that are known and committed.

During the year ended December 31, 2020, the Corporation entered into a sublease for new head office space which expires on July 30, 2022. The Corporation has recorded this under its right of use assets in note 5.

18. SUPPLEMENTAL INFORMATION

Change in non-cash working capital balances:

For the years ended December 31,		
(\$ Cdn thousands)	2020	2019
Accounts receivable	62	(35)
Prepaid expenses	(8)	10
Accounts payable and accrued liabilities	(70)	(101)
Deferred revenue	280	106
Total change in non-cash working capital	264	(20)

19. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out in this note have been applied consistently to all years presented in these financial statements. The accounting policies have been applied consistently by the Corporation.

Basis of presentation

The financial statements include the accounts of Corporation. Any reference to Corporation or the Corporation throughout these financial statements refers to the Corporation and its subsidiary. All intercompany transactions between Corporation and its subsidiary have been eliminated.

Subsidiaries

Subsidiaries are entities controlled by the Corporation. The Corporation controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial results of subsidiaries are included in the financial statements from the date that control commenced until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Corporation. The wholly owned subsidiary was amalgamated into the parent on December 31, 2019.



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Foreign currency

Foreign currency transactions

Transactions in foreign currencies are translated into the functional currency of the applicable entity at the exchange rate in effect at the time of the transaction. Monetary items are then re-translated into the entity's functional currency at each reporting period at the exchange rates in effect at the statements of financial position date. Non-monetary items are not re-translated. Revenues and expenses denominated in foreign currency are translated at rates in effect at the time of the transactions. Gains and losses on foreign currency transactions are included as a separate line item in the statements of operations and comprehensive loss.

Cash and cash equivalents

Cash and cash equivalents are comprised of cash at bank and cash in hand, including offsetting bank overdrafts, short-term investments, and similar instruments that have a maturity of three months or less at the date of acquisition or that have a maturity beyond three months but are cashable and carry insignificant penalties if cashed early. In reporting periods where bank overdrafts exceed cash and cash equivalents, the balance will be referred to as bank indebtedness. As at December 31, 2020, cash equivalents included a \$97 cashable GIC, which bore interest at 0.5%, and matured February 5, 2021. This GIC was renewed on maturity with a \$97 cashable GIC, which bears interest at 0.1%, and matures February 5, 2022.

Property and equipment

Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment. Gains and losses on disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of property and equipment and are recognized net within other operating expenses.

Subsequent costs

The cost of replacing a part of an item of property and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Corporation and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of property and equipment (repairs and maintenance) are charged to earnings as incurred.

Depreciation

Depreciation is calculated based on the depreciable amount, which is the cost of an asset less its residual value. Depreciation is charged to earnings, from the date assets are installed and ready for use, either on a straight-line or declining balance basis, over the estimated useful lives of each part of an item of property and equipment.



NOTES TO THE FINANCIAL STATEMENTS

(\$ Cdn thousands, except as noted)

The methods and rates of depreciation are as follows:

Computer hardware	straight-line over five years
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Research and development

Expenditures on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, are charged to earnings as incurred. Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditures are expensed unless specific criteria are met, including the technical feasibility intention to complete, ability to use or sell, probable future economic benefit, availability of necessary resources and ability to measure. The Corporation has not capitalized any development costs up to December 31, 2020.

Right of use assets

Lease obligation is measured at the present value of lease payments using the Corporation's incremental borrowing rate at the date the lease is entered into. The corresponding right-of-use assets will be disclosed separately from property and equipment. The right-of-use assets will be measured at an amount equal to the lease liability, adjusted by the amount of any prepaid lease payments and lease incentives.

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

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

Impairment

Receivables

The Corporation uses the simplified approach in determining expected credit losses. Under this model, the Corporation measures the loss allowance at an amount equal to the lifetime expected credit losses.



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(\$ Cdn thousands, except as noted)

Non-financial assets

The carrying amounts of the Corporation's non-financial assets, other than current assets and tax-related assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the recoverable amount of the asset or cash-generating unit is estimated.

The recoverable amount of an asset or cash-generating unit ("CGU") is the greater of its value-in-use and its fair value less costs to sell. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generate cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGU. Goodwill acquired in a business combination is allocated to the group of CGUs that is expected to benefit from the synergies of the combination. This allocation is subject to an operating segment ceiling test and reflects the lowest level that goodwill is monitored for internal reporting purposes.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in earnings.

Common shares

Common shares are classified as equity. Costs directly attributable to the issue of common shares are recognized as a reduction of equity, net of any tax effects. Warrants are classified as equity and valued at the time of issuance based on the Black-Scholes option-pricing model.

Earnings per share

The Corporation presents basic and diluted earnings per share ("EPS") data for its common shares. Basic EPS is calculated by dividing the earnings attributable to common shareholders by the weighted average number of common shares outstanding during the period. Diluted EPS is determined by adjusting the earnings attributable to common shareholders and the weighted average number of common shares outstanding for the effects of all dilutive potential common shares.

Revenue Recognition

Revenue is recognized to depict the transfer of goods or services in an amount that reflects the consideration to which the entity expects to be entitled following five steps:

1. Identify the contract with a customer
2. Identify the performance obligations in the contract
3. Determine the transaction price
4. Allocate the transaction price to the performance obligations in the contract
5. Recognize revenue when (or as) the entity satisfies a performance obligation

Revenue may be earned over time as the performance obligations are satisfied or at a point in time which is when the entity has earned a right to payment, the customer has possession of the asset and the related significant risks and rewards of ownership, and the customer has accepted the asset or service.



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Software as a Service (SaaS)

Software is provided to customers via a SaaS subscription model which allows customers to use hosted software over a term without taking possession of the software. The parties in the contract are identified in a signed agreement which states each party's rights, performance obligations and payment terms. Revenue is recognized monthly over the life of the contract as the performance obligations are satisfied through the provision of access to the software and from the software functionality being applied to private investments which the customer has uploaded into the software.

Integration revenue consists of three separate performance obligations relating to regulatory consulting, marketing consulting and customization services. Revenue for all three performance obligations is recognized over time as the service is provided to the customer.

The Corporation generally receives payment from its clients monthly in advance for the subscription revenue and after invoicing with normal 30-day commercial terms for integration. In instances where timing of revenue recognition differs from the timing of invoicing and subsequent payment. Management has determined the contracts do not include a significant financing component. Clients may pay the subscription price for the term of the contract in advance of using the services in which case the amount paid is recorded as deferred revenue and recognized as revenue when earned.

Government grants, loans, and investment tax credits (ITCs)

Government grants and credits are initially recorded as a liability when funds are received in advance of the costs to which they relate. Grants and credits are recognized into income or against the assets to which they relate when the Corporation establishes reasonable assurance that the applicable terms have been complied with and the amounts will be realized. Upon recognition, the amounts are credited against the expense or assets to which they relate.

Share-based payment transactions

The measurement date of fair value of equity-settled share-based payment awards granted to employees and others providing similar services is recognized as an employee expense, with a corresponding increase in equity, over the period that the employees become entitled to the awards (vesting period). The amount recognized as an expense is adjusted to reflect the number of awards for which the related service vesting conditions are expected to be met, such that the amount ultimately recognized as an expense is based on the number of awards that meet the related service conditions at the vesting date. Share-based payments include stock options and restricted share units.

Income taxes

Income tax expense is comprised of current and future tax. Income tax expense is recognized in the statements of operations and comprehensive loss except to the extent that it relates to items recognized in other comprehensive income or equity on the statements of financial position.

Current tax

Current tax is calculated using tax rates which are enacted or substantively enacted at the end of the reporting period. Management periodically evaluates positions taken in tax returns with respect to situations in which



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applicable tax regulations are subject to interpretation. It establishes provisions where appropriate based on amounts expected to be paid to taxation authorities.

Deferred tax

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates which are enacted or substantively enacted at the end of the reporting period and are expected to apply when the related deferred income tax asset is realized, or the deferred income tax liability is settled.

Deferred tax liabilities are generally recognized for all taxable temporary differences, except for temporary differences that arise from goodwill, which is not deductible for tax purposes. Deferred tax liabilities are also recognized for taxable temporary differences arising on investments in subsidiaries except where the reversal of the temporary difference can be controlled, and it is probable that the difference will not reverse in the foreseeable future.

Deferred tax assets are recognized to the extent it is probable that taxable profits will be available against which the deductible balances can be utilized. All deferred tax assets are analyzed at each reporting period and reduced to the extent that it is no longer probable that the asset will be recovered. Deferred tax assets and liabilities are not recognized with respect to temporary differences that arise on initial recognition of assets and liabilities acquired other than in a business combination.

Uncertain tax positions

The Corporation is subject to taxation in numerous jurisdictions. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Corporation maintains provisions for uncertain tax positions that it believes appropriately reflect its risks with respect to tax matters under active discussion, audit, dispute, or appeal with tax authorities or which are otherwise considered to involve uncertainty. These provisions are made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors. The Corporation reviews the adequacy of these provisions at the end of the reporting period. However, it is possible that at some future date an additional liability could result from audits by taxing authorities. Where the final outcome of these tax-related matters is different from the amounts that were initially recorded, such differences will affect the tax provisions in the period in which such determination is made.

Financial instruments

The Corporation's financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, and convertible debentures.

Financial instruments – recognition and measurement

All financial instruments are measured at fair value upon initial recognition of the transaction. Measurement in subsequent periods is dependent on whether the instrument is classified as "measured at fair value through profit or loss", "measured at fair value through other comprehensive income", or "measured at amortized cost".



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Financial assets or financial liabilities are measured at fair value through profit or loss if acquired for the purpose of selling or repurchasing in the short term. Changes in fair value are recognized in financing costs in the statements of operations and comprehensive loss. Convertible debentures are measured at fair value with any changes being recorded through profit and loss.

The Corporation's financial instruments measured at amortized cost consist of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, lease obligation, and loan payable. They are recognized at amortized cost, using the effective interest rate method, at each reporting period, net of transaction costs directly attributable to the issuance of long-term debt. Transaction costs related to the issuance of any long-term debt are netted against the carrying value of the associated long-term debt and amortized as part of financing costs over the life of that debt using the effective interest rate method.

Embedded derivatives

An embedded derivative is a component of a hybrid contract that also includes a non-derivative host – with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative.

Derivatives embedded in hybrid contracts with a financial asset host within the scope of IFRS 9 are not separated. The entire hybrid contract is classified and subsequently measured as either amortized cost or fair value as appropriate.

Derivatives embedded in hybrid contracts with financial liability hosts are treated as separate derivatives when they meet the definition of a derivative, their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value through profit or loss. Changes in the fair value of separable embedded derivatives are recognized in profit or loss. An embedded derivative in a financial liability at fair value through profit or loss is not separated. An embedded derivative is presented as a non-current asset or non-current liability if the remaining maturity of the hybrid instrument to which the embedded derivative relates is more than 12 months and is not expected to be realized or settled within 12 months. Multiple embedded derivatives in a single hybrid contract are treated as a single compound embedded derivative when the derivatives relate to similar risk exposures and are not readily separable and independent of each other.

Katapult's convertible debentures are hybrid contracts with multiple embedded derivatives. The Corporation has designated the entire hybrid contract as at fair value with adjustments recorded to finance costs through the profit or loss.

20. SUBSEQUENT EVENTS

Subsequent to year end, the Corporation raised \$3.0 million by issuance of \$3.0 million unsecured subordinated convertible debentures to Canaccord Genuity Group Inc., with no interest (0% coupon) and maturing five years from issuance, at which time the principal amount of the Debentures will become due and payable. Until the maturity date, the lender may convert the debentures into common shares of the Corporation at a conversion price of \$0.23 per common share. As part of the debenture financing, the Corporation issued to the lender warrants to acquire 12,000,000 common shares, exercisable at any time on or prior to the maturity date. Each warrant is exercisable into one common share at an exercise price of \$0.25 per common share.