2020

Management Discussion & Analysis

Katipult Technology Corp. December 31, 2020

MANAGEMENT DISCUSSION AND ANALYSIS

The following management discussion and analysis (MD&A) of the financial condition and results of operations is intended to help the reader understand the current and prospective financial position and operating results of Katipult Technology Corp. (the “Corporation” or “Katipult”). The MD&A discusses the operating and financial results for the year ended December 31, 2020, is dated April 20, 2021, and takes into consideration information available up to that date.

The MD&A is based on the annual financial statements for the year ended December 31, 2020. The MD&A should be read in conjunction with the annual financial statements and related notes for the year ended December 31, 2020, prepared in accordance with International Financial Reporting Standards (IFRS). The Corporation's audited 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 sustainability, 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.

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* is a useful supplemental measure of operations and that *working capital* is a useful 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, non-cash, and extraordinary amounts. Other key metrics are *Monthly Recurring Revenue (MRR)* and *Churn Rate*. All these terms are defined below. 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").

NON-GAAP MEASURES DEFINITIONS

"**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:

For the year ended December 31, **($ Cdn thousands)**	**2020**	2019	2018
Net loss	**(1,877)**	(306)	(2,073)
Plus:			
Depreciation and amortization	**29**	1	1
Finance costs	**359**	326	259
Income taxes recovery	**-**	(7)	(38)
Unrealized loss (gain) on convertible debentures	**45**	(1,133)	-
Foreign exchange	**(2)**	17	(8)
Share-based payments	**214**	476	258
Other income	**(36)**	(297)	(10)
Adjusted EBITDA	**(1,268)**	(923)	(1,611)

"**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)**	**December 31, 2020**	December 31, 2019	Increase (decrease) in working capital
Current assets			
Cash and cash equivalents	**865**	1,855	(990)
Accounts receivable	**40**	102	(62)
Prepaid expenses	**10**	2	8
Total current assetes	**915**	1,959	(1,044)
Current liabilities			
Accounts payable and accrued liabilities	**221**	**291**	(70)
Deferred revenue	**433**	**138**	295
Current portion of lease obligation	**33**	**-**	33
Total current liabilities	**687**	**429**	258
Working capital	**228**	**1,530**	(1,302)

"Monthly recurring revenue (MRR)" is used by management as a measure of 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.

"Churn" is used by management as a measure of performance as a SaaS company. Churn is measurement of MRR that is cancelled or not renewed.

ADDITIONAL GAAP MEASURES DEFINITIONS

"**Funds used in operations**" is used by management 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 Statements of Cash Flows included in the cash provided by operating activities section.

"**Gross profit**" is used by management 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 statements of operations and comprehensive income (loss) and from the segmented information contained in the notes to the financial statements. Gross profit is defined as revenue less cost of revenue.

"**Gross profit percentage**" is used by management to analyze overall and segmented operating performance. Gross profit percentage is calculated from the statements of operations and comprehensive income (loss) and from the segmented information in the notes to the financial statements. Gross profit percentage is defined as gross profit divided by revenue.

"Subscription revenue" is comprised of 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.

FINANCIAL AND OPERATION HIGHLIGHTS

For the year ended December 31, **($ Cdn thousands)**	**2020**	2019	2018
Subscription revenue [1]	**1,288**	1,304	702
Integration revenue [1]	**31**	312	523
Total revenue	**1,319**	1,616	1,225
Gross profit [1]	**1,033**	1,306	903
Gross profit percentage [1]	**78.3%**	80.8%	73.7%
Adjusted EBITDA [1]	**(1,268)**	(923)	(1,611)
Net loss and comprehensive loss	**(1,877)**	(306)	(2,073)

Subscription and Integration Revenue [1]

The Corporation continues to expand and improve its product to meet the evolving needs of existing and prospective new customers. Over the last several quarters, 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 year ended December 31, 2020, decreased to $1,288 compared to $1,304 in fiscal 2019. The decrease in revenue is due to the Corporation's focus on the enterprise market that has a longer sell cycle combined with an increase churn in non-enterprise customers.

The Corporation did not have any integration revenue in the second, third, and fourth quarter of 2020. The Corporation expects to have limited to no integration revenue as it reduces its emphasis on non-recurring revenue streams.

Continued investment impacts Adjusted EBITDA[1] and Net Income

The gross profit percentage was 78.3% for the year ended December 31, 2020 (2019: 80.8%). The lower gross profit was largely due to lower integration and subscription revenue partially offset by lower expenses related to cost of revenue. The Corporation has maintained a gross profit percentage of over 75.0% for the past twelve quarters.

Adjusted EBITDA losses increased to $1,268 in 2020 (2019: loss $923) primarily due to lower integration and subscription revenue. Similarly, the Corporation's net loss and comprehensive loss increased to $1,877 in 2020 compared to $306 in 2019. The increased loss is due to a $1,178 change in the non-cash fair value the Corporation's outstanding convertible debentures in addition to lower revenue, lower other Income, and higher finance costs. It should be noted that the outstanding principal of the convertible debentures issued in 2018 (the "2018 Debentures") of $3,000 remained unchanged and the accrued interest, is greater than the amount recognized as a liability on the statement of financial position.

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

HIGHLIGHTS

Changes to Management and Directors

On January 6, 2020, Katipult appointed Gord Breese to the position of President, Chief Executive Officer and Director of the Corporation. Brock Murray, the Corporation's Co-Founder and former President and Chief Executive Officer was appointed to the new role of Head of Global Development and remained a Director.

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, continues to serve as an Independent Director and has been appointed Chair of the Compensation & Governance Committee

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, had 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 multi-year agreement between TSX Trust and Katipult will focus on delivering a range of new digital deal management solutions to the market.

$3.0 million Unsecured Subordinated Convertible Debenture

On March 5, 2021, Katipult announced the close and issuance of $3.0 million of unsecured subordinated convertible debentures (the "2021 Debentures") to Canaccord Genuity Group Inc. ("Canaccord Genuity" or "CG"), with no interest (0% coupon) and maturing after five years at which time the principal amount will become due and payable. Until the maturity date, the 2021 Debentures may be converted into common shares in the capital of the Corporation at a conversion price of $0.23 per common share. As part of the financing, the Corporation issued warrants to acquire 12,000,000 common shares, exercisable at any time on or prior to the March 5, 2026. Each warrant is exercisable into one common share at an exercise price of $0.25 per common share.

Raymond James Associates, Inc.

On March 8, 2021, the Corporation announced the addition of Raymond James Associates, Inc. in the US to its growing customer list. Katipult will support operations across their spectrum of offerings while streamlining and automating internal processes like assigning financial advisor allocations, distributing investor subscription documents, and standardizing regulatory compliance and reporting. This relationship is part of management's strategy to grow the Corporation's portfolio of tier 1 financial institutions and investment banks embracing fully digital capital raises and investor servicing.

Expanded Commercial Relationship with Canaccord Genuity

On March 23, 2021, the Corporation announced that it entered into a multi-year software license agreement and a strategic co-marketing agreement with Canaccord Genuity.

The agreements support Katipult's growth and market expansion plans with a focus on strengthening its market position in Canada and expanding its presence in the U.S., UK and Australian capital markets.
This expanded commercial relationship serves to forge a productive relationship between Katipult and CG that:

- Provides Canaccord Genuity with access to Katipult's software for deployment across its wealth management and capital markets businesses, which operate from locations in Canada, the U.S., UK and Australia, for the purpose of enabling CG to execute capital raising and related services in a secure digital environment;
- Leverages CG's established capital markets expertise and international presence to support Katipult in its deployment of existing and new technology solutions for expediting deal flow, managing compliance and fast-tracking the delivery of services to clients; and
- Fosters ongoing collaboration between Katipult and CG to support the continued advancement of Katipult's digital solutions, in support of Katipult's ambitions of becoming a leading global provider of capital markets software infrastructure.

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 and change in business strategy. This decrease occurred largely due to market conditions and the Corporation's decision to focus its growth on the North American 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.

Early results of the Corporation's focus in 2020 on securing enterprise clients in North America have been the announced client wins referred to above of Raymond James & Associates in the US and Canaccord Genuity in Canada. In addition, in 2020 Management had regard to the Corporation's cash burn and took steps to raise capital to support operations. The culmination of this work was the February 21, 2021 announcement of the issuance of the 2021 Debentures to Canaccord Genuity Inc, raising $3.0 million in the form of a five year, zero coupon convertible debenture with warrants attached.

In 2021, the Corporation will focus its efforts on driving new North American enterprise MRR and positioning its product to become a leading equity capital markets and alternative lending solution in the enterprise market across North America.

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. 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, 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 and vary depending on the work involved.

RESULTS OF OPERATIONS

For the year ended December 31,			
($ Cdn thousands)	**2020**	2019	2018
Subscription revenue [1]	**1,288**	1,304	702
Integration revenue [1]	**31**	312	523
	1,319	1,616	1,225
Cost of revenue	**286**	310	322
Gross profit [1]	**1,033**	1,306	903
Gross profit percentage [1]	**78.3%**	80.8%	73.7%

The Corporation continues to expand and improve its product to meet the evolving needs of existing and prospective new customers. Over the last several quarters, 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 North American enterprise market. Subscription revenue for the year ended December 31, 2020,

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

decreased to $1,288 compared to $1,304 in fiscal 2019. The decrease in revenue is due to the Corporation's focus on the enterprise market that has a longer sell cycle combined with an increase churn in the small customers.

One of the Corporations key metrics is Monthly Recurring Revenue (MRR) [(1)]. Management's focus 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 December 31, 2020, is $114, a net decrease of $10 from the MRR at December 31, 2019. During the year, the Corporation increased MRR by $45 from new customers and reduced MRR by $55 from the churn of smaller, less established customers.

Integration revenue fluctuates from quarter-to-quarter as it is dependent on the number of new customers brought on in the quarter, and the level of the client's understanding of regulatory requirements, the level of customer-facing customization required and issues needing to be addressed to make the client ready to onboard. As the Katipult product functionality matures and becomes more scalable, the Corporation will continue to reduce its emphasis on non-recurring integration revenue. Integration revenue was lower in 2020 as compared to 2019 as the Corporation continued to transition its revenue stream to subscription-based revenue. In addition, the Corporation began 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 North American enterprise market.

The Corporation did not have any integration revenue in the second, third, and fourth quarter of 2020. The Corporation expects to have limited to no integration revenue as it reduces its emphasis on non-recurring revenue streams.

The gross profit percentage was 78.3% for the year ended December 31, 2020 (2019: 80.8%). 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 ADMINISTRATIVE

For the year ended December 31, **($ Cdn thousands)**	**2020**	2019	2018
Selling, general, and administrative less share-based payments and bad debt expense	**1,385**	1,337	1,494
Bad debt expense	**130**	75	107
Share-based payments	**214**	476	258
Selling, general, and administrative	**1,729**	1,888	1,859

For the year ended December 31, 2020, total selling, general and administrative (SG&A) expenses less share-based payments and bad debt expense increased by $48, compared to 2019 as a result of the additional management hires, offset by the decreased marketing and sales costs.

In 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 are share-based payments of $214 in the year ended December 31, 2020 (2019: $476). This non-cash expense is driven by the issuance and vesting of stock options and restricted share units.

RESEARCH AND DEVELOPMENT

For the year ended December 31, ($ Cdn thousands)	2020	2019	2018
Research and development	**786**	817	913

Research and development (R&D) expenses for the year ended December 31, 2020, decreased by 3.8% to $786 compared to $817 in 2019. The decrease is the result of the Corporation increasing its focus on customer-driven functionality enhancements and post-sales support activities.

FOREIGN EXCHANGE

For the year ended December 31, ($ Cdn thousands)	2020	2019	2018
Foreign exchange	**(2)**	17	(8)

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

FINANCE COSTS

For the year ended December 31, ($ Cdn thousands)	2020	2019	2018
Bank related charges	**26**	48	31
Interest on convertible debentures	**322**	275	153
Interest on lease obligation	**11**	-	-
Issuance cost of convertible debentures	**-**	-	65
Other interest and charges	**-**	3	10
Finance costs	**359**	326	259
Unrealized loss (gain) on convertible debentures	**45**	(1,133)	-

Finance costs increased for the year ended December 31, 2020, compared to the 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 2018 Debentures are hybrid contracts with multiple embedded derivatives. The Corporation has measured the entire hybrid contract at fair value with adjustments recorded in profit or loss.

OTHER INCOME

For the year ended December 31, ($ Cdn thousands)	**2020**	2019	2018
Other and interest income	**(11)**	(115)	(8)
Government grants	**(25)**	(182)	(2)
Other income	**(36)**	(297)	(10)

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

Other income and expenses in 2019 included amounts 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 in 2020 related to CEBA loan of $10 with the remaining $15 related to Scientific Research and Experimental Development program ("SRED"). In 2019, the Corporation received government grants of $79 from SRED and $105 from the National Research Council of Canada Industrial Research Assistance Program (NRC IRAP). The Corporation continues to apply to programs it qualifies for as they become available.

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

For the year ended December 31, ($ Cdn thousands)	**2020**	2019	2018
Adjusted EBITDA [(1)]	**(1,268)**	(923)	(1,611)
Net loss and comprehensive loss	**(1,877)**	(306)	(2,073)
Funds used in operations [(1)]	**(1,279)**	(673)	(1,604)
Total funds used in operating activities	**(1,015)**	(693)	(1,405)

Adjusted EBITDA losses increased to $1,268 (2019: loss $923) during the year ended December 31, 2020. The increased loss was the result of lower integration and subscription revenue, partially offset by lower research and development costs, and selling, general and administrative costs.

The Corporation's net loss and comprehensive loss was $1,877 for the year ended December 31, 2020 (2019: $306). The increased loss is largely due to an increase in the fair value of the Corporation's outstanding convertible debentures arising from the revaluation in addition to higher finance and lower revenue. It should be noted that the outstanding principal of the convertible debentures remained unchanged at $3,000 and the accrued interest, is greater than the amount recognized as a liability on the statement of financial position.

For the year ended December 31, 2020, the funds used in operations increased. The increase is largely due to lower other income and lower revenue partially offset by lower marketing and sales and research and development costs.

FINANCIAL AND OPERATING HIGHLIGHTS - QUARTERLY ANALYSIS

	2020				2019			
($ Cdn thousands)	**Q4**	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Subscription revenue (1)	**329**	301	329	329	329	365	307	303
Integration revenue (1)	-	-	-	31	53	22	77	160
Total revenue	**329**	301	329	360	382	387	384	463
Gross profit (1)	**253**	232	253	295	312	311	306	377
Gross profit - percentage (1)	**76.9%**	77.1%	76.9%	81.9%	81.7%	80.4%	79.7%	81.4%
Selling, general, and administrative	**223**	494	495	517	509	438	447	494
Research and development	**195**	190	219	182	161	190	212	254
Adjusted EBITDA (1)	**(289)**	(387)	(325)	(267)	(219)	(242)	(224)	(238)
Net income (loss) and comprehensive income (loss)	**239**	(768)	(620)	(728)	709	(353)	(343)	(707)
MRR at the end of the quarter (1)	**114**	118	110	110	124	120	116	91

FOURTH QUARTER ANALYSIS

Revenue

Subscription revenue for the three-month period ended December 31, 2020 was $329 consistent with revenue over the comparable period in fiscal 2019. The is due to new customers gained in the third and fourth quarters of 2020 offsetting the churn during from previous periods.

The MRR as at December 31, 2020, is $114, a decrease of $4 from the MRR at September 30, 2020. During the quarter, the Corporation increased MRR by $5 from new customers and reduced MRR by $9 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 fourth quarter of 2020. The Corporation expects to have limited to no integration revenue as it reduces its emphasis on non-recurring revenue streams.

The gross profit percentage was 76.9% for the quarter ended December 31, 2020 (2019: 81.7%). The lower gross profit was largely due to lower integration revenue partially offset by lower expenses related to cost of revenue.

Selling, general, and administration

For the three months ended December 31, 2020, total selling, general and administration (SG&A) expenses decreased by $286, compared to same period in 2019. The reduction is largely due to a decrease in stock-based payments related to the forfeited stock options, partially offset by an increase in bad debt expense.

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

Research and development

Research and development (R&D) expenses for the three months ended December 31, 2020, increased by 21.1% to $195 when compared to same period in 2019 as the Corporation continues to invest in its research and development efforts.

LIQUIDITY AND CAPITAL RESOURCES

Working capital

As at **($ Cdn thousands)**	**December 31, 2020**	December 31, 2019	Increase (decrease) in working capital
Current assets			
Cash and cash equivalents	**865**	1,855	(990)
Accounts receivable	**40**	102	(62)
Prepaid expenses	**10**	2	8
Total current assetes	**915**	1,959	(1,044)
Current liabilities			
Accounts payable and accrued liabilities	**221**	**291**	(70)
Deferred revenue	**433**	**138**	295
Current portion of lease obligation	**33**	**-**	33
Total current liabilities	**687**	**429**	258
Working capital [(1)]	**228**	**1,530**	(1,302)

Liquidity

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.

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

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

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.

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.

SHAREHOLDERS' EQUITY

Issued and Outstanding

Number of common shares	Issued
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 December 31, 2020	69,279,316
Shares issued on exercise of stock options	1,600,000
Balance as at April 20, 2021	70,879,316

Common shares

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.

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.

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

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.

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.

CONVERTIBLE DEBENTURES

During the year ended December 31, 2018, the Corporation issued convertible debentures of $3,050 with a five-year maturity date. The 2018 Debentures may be extended beyond the maturity date by the holder, in which case they 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 **($ Cdn thousands)**	**December 31, 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

The 2018 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 2018 Debentures reconciles to the balance at December 31, 2020 and 2019 as follows:

As at **($ Cdn thousands)**	**December 31, 2020**	December 31, 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 2018 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 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 2018 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 2018 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 2018 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 2018 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.

SUBSEQUENT EVENTS

Subsequent to year end, the Corporation raised $3.0 million by issuance of unsecured subordinated convertible debentures (the “2021 Debentures”) to Canaccord Genuity, 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 has issued 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.

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.

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.

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.

OFF-BALANCE SHEET ARRANGEMENTS

The Corporation has no material undisclosed off-balance sheet arrangements that have or are reasonably likely to have, a current or future effect on our results of operations, financial condition, revenues or expenses, liquidity, capital expenditures or capital resources.

RISK FACTORS

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 risks described herein (including risks and uncertainties listed in the Forward-Looking Statements section in this MD&A).

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 that could affect the Corporation are described below; however, they 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 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 ongoing operational risks including, but not limited to:

Financial Risks

Fluctuation in Quarterly Results

Revenue and operating results may fluctuate as a result of a variety of factors, including demand for the Corporation's products and services; the proportion of recurring revenue versus non-recurring revenue; the introduction of new products and product enhancements by the Corporation or its competitors; changes in the Corporation's pricing policies or those of its competitors; currency exchange rate fluctuations; or the fixed nature of a significant portion of the Corporation's operating expenses, particularly salaries and leasing costs.

Financing Risks

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 is uncertain.

Economic Conditions

The Corporation's revenues and operating results are and will continue to be influenced by prevailing general economic conditions and financial market conditions. In such cases, customers may reduce their purchases of new outsourced and existing software solutions. In addition, the deterioration of economic conditions could adversely affect payment patterns which could increase the Corporation's bad debt expense or the level of client renewals.

During an economic downturn, there can be no assurance that the Corporation's operating results, prospects and financial condition would not be adversely affected.

History of Operating Losses

The Corporation has a history of operating losses since its inception. While the Corporation expects revenues to increase, it also expects to incur marketing and business development costs and that, as a result, the Corporation may incur net losses in the future. There can be no assurance that the Corporation will achieve higher profitability, or that profitability will be sustained.

Negative Operating Cash Flow

The Corporation had negative operating cash flow for the year ended December 31, 2020. The Corporation may require additional financing to fund its operations to the point where it is generating positive operating cash flow. Continued negative operating cash flow may restrict the Corporation's ability to pursue its business objectives.

Our levels of indebtedness can have negative implications for our shareholders

The Corporation's ability to make payments of principal and interest on any debt it carries will depend on its future operating performance and its ability to enter into additional debt and equity financings, which to a certain extent, is subject to economic, financial, competitive and other factors beyond its control. If, in the future, the Corporation is unable to generate sufficient cash flow to service its debt, it may be required to refinance all or a portion of its existing debt or obtain additional financing. There can be no assurance that any such refinancing would be possible or that any additional financing could be obtained on terms acceptable to the Corporation. The inability to obtain additional financing could have a material adverse effect on its operating performance and any additional equity financing would result in the dilution of shareholders.

The Corporation's indebtedness could have significant consequences to shareholders, such as increased vulnerability to adverse general economic and industry conditions. The Corporation may find it more difficult to fund future working capital, capital expenditures, general corporate purposes or other purposes and it would have to allocate a substantial portion of its cash resources to the payment on its indebtedness, which would reduce the funds available for operations and for distribution to shareholders.

Control of the Corporation

Brock Murray and Pheak Meas, Directors and Officers of the Corporation, beneficially own, control or direct, directly or indirectly, 36,750,000 Common Shares, representing approximately 52.1% of the issued and outstanding Common Shares.

By virtue of their holdings, and by being a director and officer of the Corporation, Mr. Murray and Mr. Meas, if acting together, have the power to exercise substantial influence over all matters requiring Shareholder approval, including the election of directors, amendments to the Corporation's articles and by-laws, mergers, business combinations and the sale of all or substantially all of the Corporation's assets. As a result, the Corporation could be prevented from entering into transactions that could be beneficial to the Corporation or its other Shareholders. Also, third parties could be discouraged from making a take-over bid for the common shares of the Corporation for those same reasons. Sales by Mr. Murray or Mr. Meas of a substantial number of Common Shares could cause the market price of the Common Shares to decline.

Market Price of the Common Shares

The Corporation's business is in an early stage of development and an investment in the Corporation's securities is highly speculative. There can be no assurance that an active trading market in the Corporation's securities will be established and maintained. Securities of companies involved in the fintech industry have experienced substantial volatility in the past, often based on factors unrelated to the financial performance or prospects of the companies involved. The price of the common shares is also likely to be significantly affected by short-term changes in the Corporation's financial condition or results of operations as reflected in its quarterly earnings reports.

Dilution

The Corporation will require additional funds in respect of the further development of the Corporation's business. If the Corporation raises funds by issuing additional equity securities, such financing will dilute the equity interests of its shareholders.

Dividend Policy

The Corporation does not intend to declare or pay any cash dividends in the foreseeable future.

Conflicts of Interest

Directors and officers of the Corporation may also serve as directors and/or officers of other fintech companies and consequently there exists the possibility for such directors and officers to be in a position of conflict. Any decision made by any of such directors and officers will be made in accordance with their duties and obligations to deal fairly and in good faith with a view to the best interests of the Corporation and its shareholders. In addition, each of the directors is required to declare and refrain from voting on any matter in which such directors may have a conflict of interest in accordance with the procedures set forth in the Alberta Business Corporations Act ("ABCA") and other applicable laws.

Pandemic Diseases – COVID-19 Response

Since December 31, 2019, the outbreak of the novel strain of coronavirus, specifically identified as "COVID-19", has resulted in governments worldwide enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and social distancing, have caused material disruption to businesses globally resulting in an economic slowdown. Global equity markets have experienced significant volatility. 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 and its operating subsidiaries in future periods.

Risks Relating to the Corporation's Technology

Cyber Security Risks

As a software-as-a-service provider, the Corporation faces cyber risks such as data breaches, unauthorized access and denial of service attacks as well as associated financial, reputational and business interruption risks. Because the Corporation's technology and services involve the storage and transmission of clients' proprietary information, unauthorized access or security breaches as a result of third-party action, employee error, malfeasance or otherwise could result in the loss of information, compromising of confidential client or employee information, inability to process client transactions, unauthorized access to proprietary or sensitive information, litigation, indemnity obligations and other significant liabilities. The unauthorized release of confidential or personal information could result in regulatory investigations, heightened regulatory scrutiny and regulatory penalties.

In addition, the Corporation's reputation could be damaged, its applications could be perceived as not being secure and clients could reduce the use of, or stop using, the Corporation's services. These risks continue to be actively managed by the Corporation through enterprise-wide technology and information security programs, with the goal of maintaining overall cyber resilience that prevents, detects and responds to such threats.

Risks Related to Cloud Based Solutions

The Corporation's strategy on software development is to provide its solutions to the client through a web interface rather than license the software for deployment to servers used by the client. Although implementation is less expensive and quicker with such a design, accessibility to the software by the client is dependent upon access to the internet, the speed and availability of which is outside the control of the Corporation. Prolonged interruptions to software access could have a material adverse effect on the Corporation’s business, results of operations, liquidity, and financial condition.

Failure to Continue to Adapt to Technological Change and New Product Development

The markets for the Corporation's products are characterized by rapid technological advances, evolving industry standards, changes in end-user requirements and frequent new product introductions and enhancements. The Corporation's future success will depend upon its ability to enhance its current products, and to develop and introduce new products that keep pace with technological developments, respond to evolving end-user requirements and achieve market acceptance.

The development of such new products or enhanced versions of existing products entails significant technological risks. There can be no assurance that the Corporation will be successful in marketing its existing products or be successful in developing or marketing new products or product enhancements, any of which could have a material adverse effect on the Corporation's business, results of operations, financial condition, and liquidity.

Risk of Defects in the Corporation's Solution

Software products as complex as those offered by the Corporation may contain errors or defects, especially when first introduced or when new versions or updates are released. The Corporation regularly introduces new releases and periodically introduces new versions of its software. There can be no assurance that, despite testing by the Corporation and by its customers, defects and errors will not be found in existing products or in new products, releases, versions or enhancements after the commencement of commercial deployment. Any such defects and errors could result in litigation, adverse customer reactions, negative publicity regarding the Corporation and its products, harm to the Corporation's reputation, loss or delay in market acceptance or required product changes, any of which could have a material adverse effect upon the Corporation's business, results of operations and financial condition.

Competition

The Corporation has experienced and will continue to experience competition from other organizations with more established sales and marketing presence, more technical services, the ability to bundle solutions with a broader set of ancillary services and greater financial resources. The Corporation's competitors may announce new products, services or enhancements that better meet the needs of customers or changing industry standards. Furthermore, additional competitors may enter the market and competition may intensify. Increased competition may cause price reductions, reduced gross margins and loss of market share, any of which could have a material adverse effect on the Corporation's business, results of operation and financial condition.

Protection of Intellectual Property

The Corporation relies primarily on a combination of confidentiality procedures and contractual provisions to protect its proprietary rights. The Corporation generally enters into confidentiality agreements with clients, employees, and outsourced development companies, including offshore software development companies assisting the Corporation with its development activities. Despite the Corporation's efforts to protect its proprietary rights, unauthorized parties may attempt to copy and may succeed in copying aspects of the Corporation's products or may attempt to obtain and use information that the Corporation regards as proprietary. Furthermore, there can be no assurance that others will not independently develop products similar to those of the Corporation. In addition, the laws of some foreign countries do not protect the Corporation's proprietary rights to as great an extent as do the laws of Canada and the US. There can be no assurance that the Corporation's competitors will not independently develop similar technology or that the Corporation's means of protecting its proprietary rights will be adequate, and, consequently, the Corporation's business, results of operations, liquidity, and financial condition could be materially adversely affected.

The Corporation is not aware that any of its products infringe the proprietary rights of third parties. There can be no assurance, however, that third parties will not claim infringement by the Corporation with respect to current or future products. Defense of such claims, with or without merit, could be time-consuming, result in costly litigation, cause product delivery delays or require the Corporation to enter into royalty or licensing agreements. Such royalty or licensing agreements, if required, may not be available on terms acceptable to the Corporation or at all, either of which could have a material adverse effect on the Corporation's business, results of operations, liquidity, and financial condition.

Risks Related to the Corporation’s Operations

Ability to Manage Future Growth

Future growth, if any, may cause a significant strain on the Corporation’s management and its operational, financial, human, and other resources. The Corporation’s ability to manage growth effectively will require it to implement and improve operational, financial, software development and management information systems and to expand, train, manage and motivate employees. These demands may require the addition of management and other personnel and the development of additional expertise. Any increase in resources devoted to research, product development and marketing and sales efforts without a corresponding increase in operational, financial, product development and management information systems could have a material adverse effect on the Corporation’s business, financial condition, and results of operations. There can be no assurance that the Corporation will be able to manage such growth effectively, that its management, personnel, or systems will be adequate to support the Corporation’s operations or that the Corporation will be able to achieve the increased levels of revenue commensurate with the increased levels of operating expenses associated with this growth. The Corporation is exposed to a variety of financial risks by virtue of its activities, including currency risk, credit risk, and liquidity risk. The overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on financial performance.

Risks Associated with Market Expansion

The Corporation may explore opportunities to expand its operations into new markets abroad by increasing the number of eligible countries from which users may use the Corporation's services. Any future expansion into new markets could place the Corporation in unfamiliar competitive environments and involve various risks, including incurring losses or failing to comply with applicable laws and regulations. Such expansion would also require significant resources and management time, and there is no guarantee that, after expending such resources and time, the Corporation will receive the necessary approvals to operate in such new markets. If the Corporation is granted authority to operate in such new markets, it is possible that returns on such investments will not be achieved for several years, if at all. There is no guarantee that the Corporation's business model will be successful in a new market, that the Corporation could maintain acceptable profit margins in these new markets, or that international expansion would help grow the Corporation's business. If the Corporation is unable to successfully expand operations into new markets, future growth rates may be harmed.

Dependence on Market Growth

There can be no assurance that the market for the Corporation's existing solutions will continue to grow, that customers will continue to adopt the Corporation's solutions or that the Corporation will be successful in establishing markets for its new products. If the various markets in which the Corporation's products are offered fail to grow, or grow more slowly than the Corporation currently anticipates, or if the Corporation is unable to establish markets for its new products, the Corporation's business, operating results and financial condition could be materially adversely affected.

Lengthy Sales and Implementation Cycle

The Corporation's sales cycle, beginning with an interested customer and culminating in entering into a commercial agreement with the customer, typically ranges from one to six months and may be significantly longer. The implementation cycle typically also ranges from one to six months and may be significantly longer. During these cycles the Corporation may devote a significant amount of time and resources and experience delays over which it has no control.

Dependence on Management and Key Employees

The Corporation's continued success will depend, to a very significant extent, on the performance and continued services of its senior management and certain other key employees; the loss of any of whom could have a material adverse effect upon the Corporation. In addition, the Corporation has hired a number of key managers in recent years and may continue to expand its management team in the future. The Corporation believes that its future success will also depend in large part upon its ability to attract and retain highly skilled technical, managerial, and sales/marketing personnel. Competition for such personnel is intense and the Corporation may experience difficulties recruiting qualified personnel in the future. There can be no assurance that the Corporation will be successful in attracting and retaining the personnel it requires to continue to maintain and expand its business.

Risk Associated with a Change in the Corporation's Pricing Model

The competitive market in which the Corporation conducts business may require it to change its pricing model. If the Corporation's competitors offer deep discounts on certain products or services to recapture or gain market share or to sell other products, the Corporation may be required to lower prices or offer other favourable terms to compete successfully. Any such changes would likely result in a margin reduction and could adversely affect the Corporation's operating results.

Operational Service Risk

If the Corporation fails to or makes an error in updating or processing client data as per the instructions from a client or participant, a financial loss could occur that may be the responsibility of the Corporation. Such losses could adversely affect the Corporation's operating results.

Dependence on Partners

The Corporation has engaged certain service partners as part of the delivery of its solutions. Failure of any partner to perform required services could have an adverse effect on the Corporation's business, and results of operations. Although the Corporation believes that it has a good relationship with its partners, the termination of these relationships for any reason whatsoever could have an adverse effect on the Corporation's business, and results of operations.

Delay or Failure to Realize Anticipated Benefits of Key Account Installations

The Corporation's business has grown rapidly in the last several years. The Corporation's growth places a strain on managerial, financial and human resources. The Corporation will need to provide adequate operational, financial and management controls and reporting procedures to manage the continued growth in the number of employees, scope of operating and financial systems and the geographic area of operations. Expanding the business into new geographic areas and to new customers requires the Corporation to incur costs, which may be significant, before any associated revenues materialize.

While the Corporation has been successful in securing key customers, the management of these relationships during a dispute or disagreement (if any) can affect the Corporation's reputation and ability to leverage these relationships for future growth.

Use of the Corporation's Services for Improper or Illegal Purposes

While the Corporation endeavours to ensure adequate precautionary and security measures are in place, its services remain susceptible to potentially illegal or improper uses as criminals are using increasingly sophisticated methods to engage in illegal activities involving internet services and payment providers. Because the Corporation's clients transact via the internet, and these are not face-to-face transactions, these transactions involve a greater risk of fraud. Other illegal or improper uses of the Corporation's services may include money laundering, terrorist financing, drug trafficking, human trafficking, illegal online gaming, romance and other online scams, illegal sexually oriented services, prohibited sales of pharmaceuticals, fraudulent sale of goods or services, piracy of software, movies, music and other copyrighted or trademarked goods, unauthorized uses of payment cards or bank accounts and similar misconduct.

Users of the Corporation's services may also encourage, promote, facilitate or instruct others to engage in illegal activities. If the measures the Corporation takes are too restrictive and inadvertently screen proper transactions, this could diminish the Corporation's client experience which could harm the Corporation's business. Despite the Corporation's best efforts, there can be no assurance that measures taken by the Corporation will stop all illegal or improper uses of the Corporation's services. The Corporation's business could be harmed if clients use the Corporation's system for illegal or improper purposes.

Uninsured and Underinsured Losses

While the Corporation may obtain insurance against certain risks in such amounts as it considers adequate, the nature of these risks is such that liabilities could exceed policy limits or be excluded from coverage. The potential costs that could be associated with any liabilities not covered by insurance or in excess of insurance coverage may cause substantial delays and require significant capital outlays, thereby materially and adversely affecting the Corporation's prospects, business and financial condition and results of operations.

M***isconduct and/or Errors by Employees and Service Providers***

While the Corporation endeavours to ensure adequate precautionary and security measures are in place, the Corporation is exposed to many types of operational risk, including the risk of misconduct and errors by our employees and third-party service providers. Our business depends on our employees and third-party service providers to process a large number of increasingly complex transactions, including transactions that involve significant dollar amounts and loan transactions that involve the use and disclosure of personal and business information. We could be materially adversely affected if transactions are redirected, misappropriated, or otherwise improperly executed, if personal and business information is disclosed to unintended recipients or if an operational breakdown or failure in the processing of other transactions occurs, whether as a result of human error, a purposeful sabotage or by means of a fraudulent manipulation of our operations or systems. In addition, the manner in which we store and use certain personal information and interact with clients is governed by applicable laws.

If any of our employees or third-party service providers take, convert or misuse funds, documents or data or fail to follow our protocol when interacting with clients, we could be liable for damages and subject to regulatory actions and penalties. As a result, we could also be perceived to have facilitated or participated in illegal misappropriation of funds, documents, or data, or failed to have followed protocol, and therefore be subject to civil or criminal liability. It is not always possible to identify and deter misconduct or errors by employees or third-party service providers, and the precautions we take to detect and prevent such activities may not be effective in controlling unknown or unmanaged risks or losses. Any of these occurrences could result in our diminished ability to operate our business, potential liability to our clients, inability to attract future clients, reputational damage, regulatory intervention and financial harm, which could negatively impact our business, financial condition and results of operations.

Insurance and Uninsured Risks

The Corporation's business is subject to a number of risks and hazards generally, including general liability. Such occurrences could result in damage to property, facilities, personal injury or death, damage to the properties of the Corporation, or the properties of others, monetary losses and possible legal liability. The Corporation may be subject to product liability claims, which may adversely affect its operations. The Corporation's industry is highly regulated, and we may be subject to regulatory scrutiny for violations of regulations and laws. The Corporation could be adversely affected by the time and cost involved with regulatory investigations even if it has operated in compliance with all laws. Investigations could also adversely affect the timely payment of receivables.

Although the Corporation does maintain insurance to protect against certain risks in such amounts as it considers reasonable, its insurance will not cover all the potential risks associated with its operations. The Corporation may also be unable to maintain insurance to cover these risks at economically feasible premiums. Insurance coverage may not continue to be available or may not be adequate to cover any resulting liability. The Corporation might also become subject to liability which may not be insured against or which the Corporation may elect not to insure against because of premium costs or other reasons. Losses from these events may cause the Corporation to incur significant costs that could have a material adverse effect upon its financial performance and results of operations.

Legal and Regulatory Risks

Privacy Concerns and Legislation

The Corporation's Platform includes features and functionality that enables firms to offer securities on a prospectus-exempt basis to various types of investors. The importance of protecting the confidential information held on the Corporation's platform and the associated regulatory requirements are increasing across the various jurisdictions in which the Corporation operates, its clients operate and where the clients' associated employee participants reside. Federal, provincial, state and foreign government bodies and agencies have adopted, are considering adopting, or may adopt laws and regulations regarding the collection, use, storage and disclosure of personal information obtained from consumers and individuals. These domestic and international legislative and regulatory initiatives may adversely affect the ability of clients to process, handle, store, use and transmit demographic and personal information relating to their employees, which could reduce demand for the Corporation's products and services applications.

Regulatory Environment

Certain aspects of the Corporation's business are conducted within highly regulated industries. Changes in regulations can occur at any time and the Corporation may become subject to more strict standards in the future. Compliance with such changes in regulations could have an adverse effect on the Corporation's business, results of operation and financial condition.

CRITICAL ACCOUNTING JUDGEMENT AND ESTIMATES

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.

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 a number of 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.
- ***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 assumption 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

CORPORATE INFORMATION

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Pheak Meas
Director and Head of Customer Success

Officers and Secretary

Gord Breese
Chief Executive Officer

Karim Teja, CPA, CGA
Chief Financial Officer

Brock Murray
Head of Global Development

Pheak Meas
Head of Customer Success

Ben Cadieux
Chief Technology Officer

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