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2023

Management Discussion & Analysis

Katipult Technology Corp. December 31, 2023 katipult | Powering Capital. Simply.

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, 2023, is dated April 26, 2024, 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, 2023. The MD&A should be read in conjunction with the annual financial statements and related notes for the year ended December 31, 2023, 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. Readers should read the Going Concern note for further details.

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. Please refer to "Risk Factors" in this MD&A for a discussion of certain of those risks.

In particular, but without limiting the foregoing, this MD&A may contain forward-looking information and statements pertaining to the ability of the Corporation to repay its debt obligations, raise additional funds and fund operations; 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; assumptions made about future sustainability, performance and operations, including growing its enterprise customer base, growing monthly recurring revenue and adding new product capabilities. 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 "Working Capital", "Adjusted EBITDA", and "churn" which are all non-IFRS measures. Management believes 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. 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 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 values), 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)**	**2023**	2022	2021
Net loss	**(1,766)**	(1,608)	(2,270)
Plus:			
Depreciation and amortization	**-**	17	30
Finance costs	**865**	678	544
Unrealized (gain) loss on convertible debentures	**256**	(123)	21
Foreign exchange gain	**(14)**	(35)	(7)
Share-based payments	**58**	38	164
Other income	**(222)**	(336)	(37)
Adjusted EBITDA	**(823)**	(1,369)	(1,555)

"**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 position and is calculated as follows:

As at **($ Cdn thousands)**	**December 31, 2023**	December 31, 2022	Increase (decrease) in working capital
Current assets			
Cash and cash equivalents	**602**	1,370	(768)
Accounts receivable	**181**	321	(140)
Unbilled revenue	**106**	-	106
Prepaid expenses	**2**	2	-
Total current assets	**891**	1,693	(802)
Current liabilities			
Accounts payable and accrued liabilities	**295**	285	10
Deferred revenue	**393**	621	(228)
Loan payable	**60**	43	17
Convertible debentures - current portion	**3,964**	-	3,964
Total current liabilities	**4,712**	949	3,763
Working capital	**(3,821)**	744	(4,565)

ADDITIONAL GAAP MEASURES DEFINITIONS

"**Annual Recurring Revenue (ARR)"** is the Monthly Recurring Revenue multiplied by twelve.

"**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 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.

"Monthly Recurring Revenue (MRR)" is the aggregate of a given month's recurring fees charged to clients.

"Subscription Revenue" consists of monthly recurring fees charged to clients for access to operate the Platform, software updates, new features and technical support.

"Enterprise Revenue" consists of monthly recurring fees charged to larger more established clients for access to operate the Platform, software updates, new features and technical support for the Corporations DealFlow Core product.

"Investment Services Revenue" consists of fees charged to clients on qualifying services and/or transactions processed through Katipult's Platform. While this revenue is expected to be recurring in nature, it will vary in size and timing as it is based on the volume and characteristics of the transactions processed.

"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)**	**2023**	2022	2021
Subscription revenue [1]	**2,344**	1,820	1,681
Investment services revenue [1]	**120**	-	22
Integration revenue [1]	**34**	44	10
Total revenue	**2,498**	1,864	1,713
Gross profit [1]	**2,063**	1,463	1,357
Gross profit percentage [1]	**82.6%**	78.5%	79.2%
Adjusted EBITDA [1]	**(823)**	(1,369)	(1,555)
Net loss and comprehensive loss	**(1,766)**	(1,608)	(2,270)
Total assets	**891**	1,693	2,567
Total non-current liabilities	**1,329**	4,186	4,439

Revenue

Over the last several quarters, the Corporation has been focusing on the enterprise market and has made significant progress in capturing well-established, well-reputed companies that can be used as references to spur and support additional sales. When compared to the same periods in 2022, subscription revenue for the year ended December 31, 2023 has increased 29% due to increased sales to enterprise clients partially offset by churn of mostly smaller, legacy customers. Enterprise client revenue was $1,968 (2022: $1,132) which has grown 74% due to the expansion of services to current enterprise clients as well as increasing the number of enterprise clients. During the third quarter of 2023 an existing customer contract transitioned to a new entity agreement at higher revenue. However, revenue includes revenue from both contracts and effective January 1, 2024, the legacy contract and its associated revenue of $125 per quarter will expire.

In 2021 the Corporation launched a new revenue stream for providing investment transaction services. This revenue stream is the result of fees charged to clients on qualifying services and/or transactions processed through Katipult's Platform. This revenue will vary in size and timing as it is based on the volume and characteristics of the transactions processed. The Corporation reported investment services revenue of $120 for the year ended December 31, 2023 (2022: $nil).

Integration revenue is non-recurring and 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. The Corporation reported integration revenue of $34 for the year ended December 31, 2023 (2022: $44).

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

Gross Profit

The gross profit percentage was 82.6% for the year ended December 31, 2023 (2022: 78.50%). The margins are higher as management works to focus on prudent expense management and continuous growth in revenues. The Corporation has maintained a gross profit percentage of over 70.0% since the fourth quarter of 2017.

Adjusted EBITDA and Net Income

Adjusted EBITDA losses were $823 for the year ended December 31, 2023 (2022: $1,369). The improvement is related to higher gross profit and lower R&D costs, partially offset by higher SG&A costs.

The Corporation's net loss and comprehensive loss increased to $1,766 for the year ended December 31, 2023 compared to the same period of 2022 (2022: $1,608). The increased loss is largely due to higher SG&A costs and higher unrealized loss on 2018 Debenture revaluation, partially offset by higher gross margin.

OUTLOOK

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;
- Management's assumptions regarding the sustainability of recurring revenue streams and the Corporation's expected profitability; and
- The Corporation's ability to repay its debt obligations, raise additional funds, and fund operations.

Katipult is continuing to progress in enhancing and expanding functionality in its core DealFlow product. Going forward, the Corporation will focus on continuing to add enterprise customers, growing its monthly recurring revenue ("MRR") and adding new product capabilities to make private capital markets more efficient, transparent and fully digitized. Subsequent to year end, the Corporation is in the process of renegotiating the debt repayment terms on its first Convertible Debentures and obtaining a bridge loan from a director of the Corporation; however, the Corporation has not yet been able to generate the sales volumes required to create positive cash flows from operating activities. The Corporation has incurred operating losses since inception and has historically relied on equity and debt financings to fund its operating losses. While the Corporation has previously been successful in raising external capital to fund its operations, there is no guarantee it will be successful in its efforts to raise additional financing; or if financing is available, that it will be on terms that are acceptable to the Corporation.

Due to these factors, there is material uncertainty that casts doubt on the Corporation's ability to continue as a going concern.

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CORPORATE PROFILE

Organization

Katipult Technology Corp. (the "Corporation" or "Katipult") is a provider of a cloud-based software for powering the exchange of capital in equity and debt markets. The Corporation was originally incorporated under the Business Corporations Act (British Columbia). On October 2, 2019, the Corporation filed articles of continuance under the Business Corporations Act (Alberta). 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 and investment services revenue. Integration revenue is generated through 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. Investment services revenue is derived through fees charged to clients on qualifying services and/or transactions processed through Katipult's Platform.

RESULTS OF OPERATIONS

REVENUE

For the year ended December 31, ($ Cdn thousands)	2023	2022	2021
Subscription revenue [1]	**2,344**	1,820	1,681
Investment services revenue [1]	**120**	-	22
Integration revenue [1]	**34**	44	10
	2,498	1,864	1,713
Cost of revenue	**435**	401	356
Gross profit [1]	**2,063**	1,463	1,357
Gross profit percentage [1]	**82.6%**	78.5%	79.2%

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

Over the last several quarters, the Corporation has been focusing on the enterprise market and has made significant progress in capturing well-established, well-reputed companies that can be used as references to spur and support additional sales. When compared to the same periods in 2022, subscription revenue for the year ended December 31, 2023 has increased 29% due to increased sales to enterprise clients partially offset by churn of mostly smaller, legacy customers. Enterprise client revenue was $1,968 (2022: $1,132) which has grown 74% due to the expansion of services to current enterprise clients as well as increasing the number of enterprise clients.

In 2021 the Corporation launched a new revenue stream for providing investment transaction services. This revenue stream is the result of fees charged to clients on qualifying services and/or transactions processed through Katipult's Platform. This revenue will vary in size and timing as it is based on the volume and characteristics of the transactions processed. The Corporation reported investment services revenue of $120 for the year ended December 31, 2023 (2022: $nil).

Integration revenue is non-recurring and 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. The Corporation reported integration revenue of $34 for the year ended December 31, 2023 (2022: $44).

SELLING, GENERAL, AND ADMINISTRATIVE

For the year ended December 31, **($ Cdn thousands)**	**2023**	2022	2021
Selling, general, and administrative before share-based payments and bad debt expense	**1,973**	1,775	1,950
Bad debt expense (recovery)	**7**	10	(10)
Share-based payments	**58**	38	164
Selling, general, and administrative	**2,038**	1,823	2,104

For the year ended December 31, 2023, selling, general and administrative ("SG&A") expenses before share-based payments increased when compared to the same periods in 2022. The increase is driven by higher labor costs, which include $40 in additional compensation related to the signing of new enterprise clients, $76 higher consulting fees, $53 higher legal fees and $32 higher professional fees.

During the year, the Corporation incurred $7 in bad debt expense (2022: $10) due to delays in the collection from one non-enterprise client. Management expects to collect the amount within the next year.

Included in SG&A expenses is a share-based payment expense of $58 for the year ended December 31, 2023 (2022: $38). The expense is driven by vesting timing of stock options.

RESEARCH AND DEVELOPMENT

For the year ended December 31, **($ Cdn thousands)**	**2023**	2022	2021
Research and development	**906**	1,047	972

Research and development ("R&D") expenses are lower compared to 2022 largely due to lower labor costs. The Corporation made significant enhancements in 2021, including the creation and launch of the latest version of its flagship product: Katipult DealFlow along with the release of new product modules including DealFlow Marketing and DealFlow DataHub.

FOREIGN EXCHANGE

For the year ended December 31, **($ Cdn thousands)**	**2023**	2022	2021
Foreign exchange gain	**(14)**	(35)	(7)

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, which have been less significant in 2023.

FINANCE COSTS

For the year ended December 31, **($ Cdn thousands)**	**2023**	2022	2021
Bank related charges	**11**	12	13
Interest on the 2018 Debentures	**435**	366	347
Accretion on the 2021 Debenture	**416**	287	168
Interest on lease obligation	**-**	1	7
Other interest and charges	**3**	12	9
Finance costs	**865**	678	544
Unrealized (gain) loss on 2018 Debentures	**256**	(123)	21

Finance costs increased for the year ended December 31, 2023, compared to the same period in the prior year mainly due to increased interest on the 2018 Debentures and the accretion on 2021 Convertible Debentures. 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.

The increased interest on the 2018 Debentures is due to the compounding nature of the accrued interest. The interest is a non-cash item prior to maturity.

In the first quarter of 2021, the Corporation issued the 2021 Debenture which results in the ongoing recognition of a non-cash accretion expense.

Other interest and charges are related to accretion on the Canadian Emergency Business Account ("CEBA") loan.

OTHER INCOME

For the year ended December 31, ($ Cdn thousands)	**2023**	2022	2021
Other and interest income	**(7)**	(10)	(6)
Government grants	**(215)**	(326)	(31)
Other income	**(222)**	(336)	(37)

Other income and expenses contain items that occur outside of the normal operating activities of the Corporation. Government grants are related to the National Research Council of Canada Industrial Research Assistance Program (NRC IRAP), Canadian Emergency Business Account ("CEBA"), CanExport, and Scientific Research and Experimental Development program ("SRED"). The Corporation received less funding from these programs in 2023.

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

For the year ended December 31, ($ Cdn thousands)	**2023**	2022	2021
Adjusted EBITDA [(1)]	**(823)**	(1,369)	(1,555)
Net loss and comprehensive loss	**(1,766)**	(1,608)	(2,270)
Funds used in operations before change in non-cash working capital	**(612)**	(1,045)	(1,531)
Total funds provided by (used in) operating activities	**(751)**	(1,083)	(1,466)

Adjusted EBITDA losses were $823 for the year ended December 31, 2023 (2022: $1,369). The improvement is related to higher gross profit and lower R&D costs, partially offset by higher SG&A costs.

The Corporation's net loss and comprehensive loss increased to $1,766 for the year ended December 31, 2023, compared to in the comparative period of 2022 (2022: $1,608). The increased loss is due to the items noted above in addition to higher non-cash revaluation loss of the 2018 Debentures.

Funds used in operations decreased for the year ended December 31, 2023 compared to 2022. This is related to higher revenue and lower R&D costs, partially offset by higher SG&A costs and lower other income.

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

FINANCIAL AND OPERATING HIGHLIGHTS - QUARTERLY ANALYSIS

	2023				2022			
($ Cdn thousands)	**Q4**	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Enterprise revenue [1]	**559**	610	431	369	319	282	274	257
Non-enterprise revenue [1]	**87**	78	107	103	151	194	164	179
Subscription revenue [1]	**646**	688	538	472	470	476	438	436
Investment services revenue [1]	**27**	26	54	13	-	-	-	-
Integration revenue [1]	**8**	7	19	-	8	-	17	19
Total revenue	**681**	721	611	485	478	476	455	455
Gross profit [1]	**557**	606	516	384	380	378	351	354
Gross profit - percentage [1]	**81.8%**	84.0%	84.5%	79.2%	79.5%	79.4%	77.1%	77.8%
Selling, general, and administrative	**513**	574	524	427	486	484	343	510
Research and development	**212**	210	247	237	223	213	276	335
Adjusted EBITDA [1]	**(158)**	(164)	(239)	(262)	(299)	(283)	(316)	(471)
Net income (loss) and comprehensive income (loss)	**(288)**	(195)	(484)	(799)	163	(559)	(502)	(710)

QUARTERLY TRENDING

Over the last several quarters, the Corporation has been focusing on the enterprise market and has made significant progress in capturing well-established, well-reputed companies that can be used as references to spur and support additional sales. When looking at the growth of enterprise revenue from the first quarter of 2022 of $257 to the fourth quarter of 2023 of $559, the Corporation has seen quarterly revenue almost double. This growth has been offset by the decline in non-enterprise client revenue.

The Corporation has maintained a gross profit percentage of over 70.0% since the fourth quarter of 2017.

Selling, general, and administrative costs have fluctuations largely due to the time and changing of staff.

Research and development ("R&D") expenses are the Corporation's investment to enhance its product offering and build out its product road-map for its Enterprise clients, specifically the DealFlow capabilities recently launched. This investment is partially funded by government grants from National Research Council of Canada Industrial Research Assistance Program (NRC IRAP) and CanExport, and Scientific Research and Experimental Development program ("SRED").

The Corporation's net loss and comprehensive loss fluctuates largely due to the non-cash revaluation of the 2018 Debentures. Due to this fluctuation Adjusted EBITDA is a better representation of the Corporations performance. Adjusted EBITDA losses have been improving in 2023 related to management's focus on prudent expense management and operational efficiency, and higher revenue.

FOURTH QUARTER ANALYSIS

Revenue

Enterprise revenue for the three-month period ended December 31, 2023 was $559, an increase of 75% from the comparable period in fiscal 2022. This is due to new customers gained throughout 2023 offsetting the churn from previous periods.

Investment services revenue for the three-month period ended December 31, 2023 was $27 (2022: $nil). This revenue stream was launched in 2021 and is the result of fees charged to clients on qualifying services and/or transactions processed through Katipult's Platform.

Integration revenue for the three-month period ended December 31, 2023 was $8 (2022: $8). This is non-recurring and 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.

The gross profit percentage was 81.8% for the quarter ended December 31, 2023 (2022: 79.5%).

Selling, general, and administration

For the three-months ended December 31, 2023, total selling, general and administration (SG&A) expenses increased by $27, compared to the same period in 2022. The increase is driven by higher labor costs, higher consulting fees, and higher legal fees.

Research and development

Research and development expenses for the three-months ended December 31, 2023, decreased by $11 to $212 when compared to the same period in 2022. The Corporation made slightly less investment in its research and development efforts in order to manage its expenditures.

Adjusted EBITDA[(1)] and Net Loss

Adjusted EBITDA for the three-months ended December 31, 2023, losses decreased by 29% to $231 when compared to the same period in 2022. The improvement is due to increased revenue and a reduction of expenditures.

The Corporation's net loss and comprehensive loss for the three-months ended December 31, 2023, increased to a loss of $359 from income of $163 in the fourth quarter of 2022. The loss increase is due to the items noted above in addition to the changes on the non-cash revaluation of the Corporation's outstanding 2018 Debentures, plus higher non-cash finance costs from both the 2018 Convertible debenture and the accretion of the 2021 Debenture during the quarter.

LIQUIDITY AND CAPITAL RESOURCES

Working capital

As at **($ Cdn thousands)**	**December 31, 2023**	December 31, 2022	Increase (decrease) in working capital
Current assets			
Cash and cash equivalents	**602**	1,370	(768)
Accounts receivable	**181**	321	(140)
Unbilled revenue	**106**	-	106
Prepaid expenses	**2**	2	-
Total current assets	**891**	1,693	(802)
Current liabilities			
Accounts payable and accrued liabilities	**295**	285	10
Deferred revenue	**393**	621	(228)
Loan payable	**60**	43	17
Current portion of lease obligation	**-**	-	-
Convertible debentures - current portion	**3,964**	-	3,964
Total current liabilities	**4,712**	949	3,763
Working capital [(1)]	**(3,821)**	744	(4,565)

Liquidity

As at December 31, 2023, the Corporation's cash and cash equivalents were $602. The Corporation had a negative net working capital position of $3,821 as at December 31, 2023; the Corporation had a net loss for the year ended December 31, 2023 of $1,766, used cash in operating activities of $751 for the year ended December 31, 2023, and had a deficit of $10,694 as at December 31, 2023.

In addition, the Corporation's 2018 Debentures matured on May 30, 2023 and therefore both the principal and accrued interest ($4,898) can be required to be repaid within six months upon receipt of notification from the holders. There is uncertainty as it relates to whether these will be called in 2024, and if that does happen, the Corporation would require external financing.

The Corporation's ability to continue as a going concern is therefore dependent upon its ability to renegotiate the 2018 Debenture repayment terms in the event of receipt of notification of required repayment from the holders. The Corporation's 2024 cash flow forecast assumes that it is able to collect receivables from its existing customers on a timely basis and that additional short-term financing will be made available via a bridge loan from one of the Corporation's directors.

The Corporation has not yet been able to generate the sales volumes required to create positive cash flows from operating activities. The Corporation has incurred operating losses since inception and has historically relied on equity and debt financings to fund its operating losses. While the Corporation has previously been successful in raising external capital to fund its operations, there is no guarantee it will be successful in its efforts to raise additional financing; or if financing is available, that it will be on terms that are acceptable to the Corporation.

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

Due to these factors, there is material uncertainty that may cast significant doubt on 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 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.

SHAREHOLDERS' EQUITY

Issued and Outstanding

Number of common shares	
	Issued
Balance as at December 31, 2022, December 31, 2023, and April 26, 2024	71,523,066

Common shares

As at December 31, 2023, 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.

Warrants

As part of the 2021 Debenture financing, the Corporation issued to the holder warrants to acquire 12,000,000 common shares, exercisable at any time on or prior to March 5, 2026. Each warrant is exercisable into one common share at an exercise price of $0.25 per common share. The value ascribed to these warrants was $1,188 (see note 4(b)).

Options

The Corporation has adopted a stock option plan whereby a maximum of 10% of the issued and outstanding common 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. Each option represents the right to receive one common share of the Corporation, upon exercise of the option.

The following summarizes the changes in outstanding options:

	2023		2022	
	Number	**Weighted average exercise price (CND$)**	Number	Weighted average exercise price (CND$)
Outstanding - beginning of period	**2,720,000**	**0.14**	3,531,250	0.21
Granted	**100,000**	**0.23**	1,650,000	0.10
Forfeited	**-**	**-**	(2,461,250)	0.20
Exercised	**-**	**-**	-	-
Outstanding - end of the period	**2,820,000**	**0.14**	2,720,000	0.14
Exercisable - end of the period	**707,500**	**0.24**	221,250	0.23

The range of exercise prices and remaining life for the options outstanding and exercisable at December 31, 2023 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 $)
2019	295,000	0.24	0.70	295,000	0.23
2020	100,000	0.25	1.92	75,000	0.25
2021	675,000	0.24	2.51	337,500	0.24
2022	1,650,000	0.10	3.42	-	-
2023	100,000	0.23	4.50	-	-
	2,820,000	0.14	2.90	707,500	0.24

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. RSUs represent the right to receive one common share of the Corporation upon vesting.

The following summarizes the changes in outstanding RSUs:

As at (Number of restricted share units)	December 31, 2023	December 31, 2022
Balance at the beginning of year	**370,000**	370,000
Granted	**-**	-
Vested and converted into shares	**-**	-
Balance at the end of year	**370,000**	370,000

As at December 31, 2023 and April 26, 2024 the outstanding restricted share units were 370,000.

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 ("CEBA Loan 1"), bearing interest at 0%.

During the year ended December 31, 2021, the Corporation was approved for repayable financing of an additional $20 operating line of credit under the second phase of the CEBA loan program ("CEBA Loan 2"), also bearing interest at 0%.

The terms of the CEBA Loan 1 and CEBA Loan 2 are as follows:

- In January 2022, both lines of credit automatically converted to two-year term loans bearing interest at 0%, to be repaid on December 31, 2023. There is the option for the Corporation to extend the loans by two additional years on December 31, 2023, and if this extension is exercised, the term loans will mature on December 31, 2025, at which time the balance must be repaid in full.
- Both loans are interest-free until January 1, 2024. If the loans are extended, commencing January 1, 2024, interest will accrue on the outstanding balance at a rate of 5% per annum, payable monthly on the last day of each month.
- If the balance of the loans is repaid in full on or before January 18, 2024, $10 of each of the term loans will be forgiven (for a total of $20).

CEBA Loan 1 of $40 was initially recorded at the fair value of $15. The initial discount of $25 on recognition of the loan at fair value was recorded as deferred revenue and recognized as other income over the three-year term of the loan.

CEBA Loan 2 of $20 was initially recorded at the fair value of $7. The initial discount of $13 on recognition of the loan at fair value was recorded as deferred revenue and recognized as other income over the two-year term of the loan.

Subsequent to December 31, 2023, the Corporation obtained a $40 loan from its finance institution and utilized the cash proceeds to repay the two CEBA loans. $20 of other income was recognized in the first quarter of 2024 when that portion of the CEBA loans was forgiven. The $40 loan has an interest rate of prime plus 1.59% per annum and is repayable over five years with monthly payments starting in January 2024 of $1 per month.

CONVERTIBLE DEBENTURES

(a) 2018 Convertible debentures

As at **($ Cdn thousands)**	**December 31, 2023**	December 31, 2022
Balance at the beginning of year	**3,273**	3,030
Interest accrued during the year	**435**	366
Unrealized (gain) loss on convertible debentures	**256**	(123)
Balance at the end of the year	**3,964**	3,273

On May 30, 2018, the Corporation issued convertible debentures ("2018 Debentures") with a principal balance of $3,000 maturing on May 30, 2023. On or after the maturity date, the holders may deliver a notice, at which point the principal and all accrued unpaid interest become due and payable six months after receiving such notice. The 2018 Debentures have therefore been presented as current on the Statement of Financial Position as at December 31, 2023.

The 2018 Debentures are hybrid contracts with multiple embedded derivatives. The Corporation has measured the entire hybrid contract at fair value (Level 3 – note 2(f)) with adjustments recorded to finance costs in the statements of operations and comprehensive loss.

The face value of the 2018 Debentures reconciles to the carrying amount as at December 31, 2023 and 2022 as follows:

As at **($ Cdn thousands)**	**December 31, 2023**	December 31, 2022
Face value	**3,000**	3,000
Interest accrued	**1,898**	1,463
Face value plus accrued interest	**4,898**	4,463
Fair value adjustment	**(934)**	(1,190)
Balance at the end of the period	**3,964**	3,273

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)).

During the year ended December 31, 2023, the Corporation's monthly cash burn rate was such that the accrued annual rate of interest payable was between 8.50% and 12% (compounded quarterly). The $3,000 outstanding in 2018 Debentures can be converted into common shares at the election of debenture holders at any time at a conversion price of $0.51 per share.

As at December 31, 2023, the accrued interest payable was $1,898 (December 31, 2022: $1,463). 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 share for common shares over ten consecutive trading days ending on the trading day before the conversion 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 as at December 31, 2023 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% (2022: 39.4%), interest payments of 8.5% to 12.0%, and a remaining expected term of 1 year (2022: 1.4 years). The fair value of the conversion feature is determined using a Black-Scholes model with a volatility of 90% (2022: 90%), a risk-free rate of interest of 4.96% (2022: 4.06%), a stock price of $0.09 (2022: $0.08) per share, and a remaining expected life of 1 year (2022: 1.4 years), as at December 31, 2023.

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 outstanding principal of the 2018 Debentures of $5. A 1% increase in the discount rate would result in a decrease in the fair value of the outstanding principal 2018 Debentures of $28. Comparable decreases in each of the share price and discount rate would result in a comparable opposite change in the fair value of the outstanding principal of the 2018 Debentures.

(b) 2021 Convertible debenture

As at **($ Cdn thousands)**	**December 31, 2023**	**December 31, 2022**
Face value	**3,000**	3,000
Financing costs	**62**	62
Proceeds from convertible debenture, net of financing costs	**2,938**	2,938
Allocation - convertible debenture - equity portion	**(1,292)**	(1,292)
Allocation - convertible debenture - warrant portion	**(1,188)**	(1,188)
Accretion on convertible debenture	**871**	455
Debenture liability balance at the end of the period	**1,329**	913

On March 5, 2021, the Corporation issued a convertible debenture ("2021 Debenture") for $3,000. The 2021 Debenture is non-interest bearing, with a maturity date of March 5, 2026. The 2021 Debenture is convertible to common shares at a conversion price of $0.23 per share. In addition, the purchaser received 12,000,000 warrants that can each be converted to one common share of the Corporation at a purchase price of $0.25 per share. The warrants expire March 5, 2026. The Corporation incurred $62 in financing costs related to legal and transaction processing charges.

The initial amount recognized for the detachable warrants and the 2021 Debenture was determined by applying the relative fair value approach. The fair value of the detachable warrants was estimated using the Black-Scholes option pricing model. The fair value of the 2021 Debenture was determined by estimating the fair values of both the debt component and conversion feature; the debt component by discounting the expected future cash flows at a market rate of interest of 45.0% for a comparable debt instrument without a conversion feature and the conversion feature using the Black-Scholes option pricing model. This resulted in $1,188 being assigned to the detachable warrants and $1,750 being assigned to the 2021 Debenture (net of transaction costs). The subsequent bifurcation of the 2021 Debenture into its liability and equity components was determined following the residual approach for the equity component; this resulted in an initial liability of $468 and the remaining $1,292 being allocated to the equity conversion feature (net of transaction costs).

The fair value of the detachable warrants and conversion feature was determined using a Black-Scholes model with a volatility of 90%, a risk-free rate of interest of 0.90%, a stock price of $0.30 per share, and a remaining expected life of 5.0 years, as at March 5, 2021.

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, 2023, $8 (December 31, 2022: $8) 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, 2023 were $180 (2022: $171).

As at December 31, 2023, one of the directors of the Corporation held convertible debentures with a face value of $1,000 (December 31, 2022: $1,000) plus unpaid accrued interest payable with a value of $633 (December 31, 2022: $488). Upon the issuance of the convertible debentures, which was entered into in the normal course of business, the individual became a director of the Corporation.

COMMITMENTS AND CONTINGENCIES

Commitments

As at December 31, 2023, 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.

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 and Going Concern Risks

While the Corporation has been able to demonstrate the ability to raise capital to fund its operations, absent an agreement with the holders to extend the deadline, the 2018 Convertible Debentures and the accrued interest may become payable within 12 months subsequent to the balance sheet date, if a reaction notice is delivered by the holders. As the Corporation does not have sufficient funds to repay the 2018 Convertible Debentures, the Corporation's ability to continue as a going concern is dependent upon its ability to renegotiate debt repayment terms, obtain short-term funding via a bridge loan, raise adequate additional financing and/or achieve significant improvements in operating results in the future, and is dependent on the Corporation's timely collection from its existing customers to sustain sufficient cash.

The Corporation has not yet been able to generate the sales volumes required to create positive cash flows from operating activities. The Corporation has incurred operating losses since inception and has historically relied on equity and debt financings to fund its operating losses. While the Corporation has previously been successful in raising external capital to fund its operations, there is no guarantee it will be successful in its efforts to raise additional financing; or if financing is available, that it will be on terms that are acceptable to the Corporation.

Due to these factors, there is material uncertainty that may cast significant doubt on the Corporation's ability to continue as a going concern. Please see Going Concern note in the Financial Statements for further details.

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, 2023. As at December 31, 2023, the significant reduction year over year of cash and outlook is challenged given historical cash burn and challenging capital markets outlook. The Corporation requires 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, 36,500,000 Common Shares, representing approximately 51.0% 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.

Inflation

The Corporation does not believe that inflation has had a material effect on our business, financial condition or results of operations. If costs were to become subject to significant inflationary pressures, Tantalus may not be able to fully offset such higher costs through price increases. The Corporation's inability or failure to do so could harm its business, financial condition and results of operations.

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.

Misconduct 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.

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CRITICAL ACCOUNTING JUDGMENT 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. Estimates and judgments 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.

- ***Going concern.*** The appropriateness of the use of the going concern assumption. Management assesses the Corporation’s ability to continue as a going concern at each reporting date, using all quantitative and qualitative information available. This assessment, by its nature, relies on estimates of future cash flows and expectations regarding other future events. Subsequent changes to these estimates or expectations could materially impact the validity of such an assessment. The assessment of the Corporation’s ability to execute its strategy and fund future operations and working capital requirements involves significant judgment. Estimates and assumptions regarding future operating costs, revenue and profitability levels and general business and customer conditions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.
- ***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 liabilities and for the 2018 Convertible Debentures, 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, particularly in the calculation of the volatility and forfeiture rates.

NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

In the current year, the Corporation has applied a number of IFRS amendments that were mandatorily effective for annual periods beginning on or after January 1, 2023:

IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* has been amended to clarify the distinction between changes in accounting estimates, changes in accounting policies and the correction of errors. The amendments also clarify how entities use measurement techniques and inputs to develop accounting estimates.

IAS 1 *Presentation of Financial Statements* has been amended to provide guidance and examples to help entities apply materiality judgments to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by replacing the requirement for entities to disclose their “significant” accounting policies with a requirement to disclose their “material” accounting policies and adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures.

The Corporation adopted the amendments on the date they were mandatorily effective, being January 1, 2023. These amendments have had an impact on the Corporation’s disclosures of accounting policies and estimates, but not on the measurement, recognition or presentation of any items in the Corporation’s financial statements nor on the Corporation's business practices.

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the financial statements are disclosed below. These new standards and amendments and their anticipated impact on the Corporation's financial statements once they are adopted are as follows:

IAS 1 – Presentation of Financial Statements: Effective January 2020, IASB issued Classification of Liabilities as Current or Non-Current (amendments to IAS 1 – Presentation of Financial Statements). The amendment clarifies that the classification of liabilities as current or non-current should be based on rights which existed at the end of the reporting period. The classification is not affected by expectations about whether or not an entity will exercise its right to defer settlement of a liability. The amendment also clarifies that settlement refers to the transfer to the counterparty of cash, equity instruments or other assets or services. The amendment is effective for calendar periods beginning on or after January 1, 2024 and is to be applied retrospectively.

The Corporation does not anticipate that the adoption of the amendment will have any effect on its classification of current and non-current liabilities within its consolidated statements of financial position. The Corporation will adopt the amendment on the effective date of January 1, 2024.

CORPORATE INFORMATION

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Brock Murray
Director and Head of Global Development

Pheak Meas
Director and Head of UX and Design

Officers

Gord Breese
Chief Executive Officer

Karim Teja, CPA, CGA
Chief Financial Officer

Ben Cadieux
Chief Technology Officer

Pheak Meas
Head of UX and Design

Brock Murray
Head of Global Development

William Van Horne
Corporate Secretary

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