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Q1 2022

Condensed Interim Financial Statements

Katapult Technology Corp.

March 31, 2022

NOTICE OF NO AUDITOR REVIEW OF CONDENSED INTERIM FINANCIAL STATEMENTS

The accompanying unaudited condensed interim financial statements of the Corporation have been prepared by and are the responsibility of the Corporation's management.

The Corporation's independent auditor has not performed a review of these financial statements in accordance with the standards established by the Chartered Professional Accountants of Canada for a review of condensed interim financial statements.

STATEMENTS OF FINANCIAL POSITION

As at		March 31,	December 31,
(\$ Cdn thousands) - unaudited	Note	2022	2021
Assets			
Current assets			
Cash and cash equivalents		2,124	2,503
Accounts receivable		164	33
Prepaid expenses		14	13
Total current assets		2,302	2,549
Property and equipment		2	2
Right of use asset		9	16
Total assets		2,313	2,567
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		272	373
Deferred revenue		601	359
Lease obligation		12	21
Total current liabilities		885	753
Loan payable	3	34	31
Convertible debentures	4	3,956	3,655
Total liabilities		4,875	4,439
Shareholders' Deficiency			
Share capital	5	2,532	2,532
Contributed surplus		1,644	1,624
Convertible debentures - equity portion	4	1,292	1,292
Deficit		(8,030)	(7,320)
Total shareholders' deficiency		(2,562)	(1,872)
Total liabilities and shareholders' deficiency		2,313	2,567

Going concern 2 (d)

(See Notes to the Condensed Interim Financial Statements)

Approved on behalf of the Board:

"signed" George Reznik
Director

"signed" Gord Breese
Director

STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS**For the three months ended March 31,**

(\$ Cdn thousands, except per share amounts) - unaudited

	Note	2022	2021
Revenue	7	455	383
Cost of revenue	8	101	78
Gross profit		354	305
Expenses			
Selling, general, and administrative	8	510	400
Research and development	8	335	190
Foreign exchange gain		8	22
Depreciation and amortization		7	8
Other income	9	(104)	(23)
Loss before finance costs, unrealized loss on convertible debentures		(402)	(292)
Finance costs	8	159	118
Unrealized loss on convertible debentures	4	149	428
Net loss and comprehensive loss		(710)	(838)
Loss per share			
Basic / Diluted	6	(0.01)	(0.01)

(See Notes to the Condensed Interim Financial Statements)

STATEMENTS OF CHANGES IN SHAREHOLDERS' DEFICIENCY**For the three months ended March 31, 2022 and 2021**

(\$ Cdn thousands, except share amounts)

					Convertible		Total
	Note	Common	Share	Contributed	- equity	Deficit	shareholders'
		Shares	Capital	surplus	portion		deficiency
Balance at December 31, 2021		71,523,066	2,532	1,624	1,292	(7,320)	(1,872)
Net loss and comprehensive loss		-	-	-	-	(710)	(710)
Share-based payments	8	-	-	20	-	-	20
Balance at March 31, 2022		71,523,066	2,532	1,644	1,292	(8,030)	(2,562)
<hr/>							
Balance at December 31, 2020		69,279,316	2,186	442	-	(5,050)	(2,422)
Net loss and comprehensive loss		-	-	-	-	(838)	(838)
Shares issued on exercise of stock options		1,200,000	156	(36)	-	-	120
Issuance of convertible debenture	5	-	-	-	1,294	-	1,294
Issuance of warrants		-	-	1,186	-	-	1,186
Share-based payments	8	-	-	(44)	-	-	(44)
Balance at March 31, 2020		70,479,316	2,342	1,548	1,294	(5,888)	(704)

(See Notes to the Condensed Interim Financial Statements)

STATEMENTS OF CASH FLOWS**For the three months ended March 31,**

(\$ Cdn thousands) - unaudited

	Note	2022	2021
Cash flows provided by (used in)			
Operating activities			
Net loss and comprehensive loss		(710)	(838)
Adjustments for:			
Depreciation and amortization		7	8
Foreign exchange loss (gain)		8	22
Finance costs	8	159	118
Unrealized loss on convertible debentures	4	149	428
Share-based payments	5	20	(44)
Other		(4)	(1)
Interest - paid		(4)	(5)
Interest - received		4	1
Funds used in operations before change in non-cash working capital		(371)	(311)
Change in non-cash working capital		(5)	123
Total funds used in operating activities		(376)	(188)
Financing activities			
Proceeds from convertible debenture, net of financing costs	4	-	2,938
Proceeds from exercised stock options	5	-	120
Proceeds from loan payable	3	-	20
Repayment of lease obligation		(9)	(8)
Total funds provided by financing activities		(9)	3,070
Effect of translation of foreign currency cash		6	(1)
Net (decrease) increase in cash		(379)	2,881
Cash and cash equivalents, beginning of year		2,503	865
Cash and cash equivalents, end of period		2,124	3,746

(See Notes to the Condensed Interim Financial Statements)

NOTES TO THE FINANCIAL STATEMENTS

(\$ Cdn thousands, except as noted) - unaudited

1. STRUCTURE OF CORPORATION

Organization

Katapult Technology Corp. (the “Corporation” or “Katapult”) 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. Katapult is a publicly traded company listed on the TSX Venture Exchange (“TSXV”) under the symbol “FUND”.

Operations

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

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

The Corporation provides its proprietary software through a Software as a Service (“SaaS”) business model. In exchange for a monthly subscription, customers benefit from software updates, new features and technical support. The Corporation also earns integration revenue 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 Katapult’s Platform.

2. BASIS OF PREPARATION

(a) Statement of compliance:

These condensed interim financial statements were prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) applicable to the preparation of interim financial statements. These condensed interim financial statements were prepared using International Accounting Standard (IAS) 34 - Interim Financial Reporting as at and for the three month periods ended March 31, 2022. These condensed interim financial statements were authorized for issuance by the Board of Directors on May 27, 2022.

These condensed interim financial statements were prepared by management and follow the same accounting policies and methods as the audited financial statements as at and for the year-ended December 31, 2021. These condensed interim financial statements do not contain all the disclosures contained in the annual financial

NOTES TO THE FINANCIAL STATEMENTS

(\$ Cdn thousands, except as noted) - unaudited

statements. As a result, these condensed interim financial statements should be read in conjunction with the Corporation's annual financial statements for the year-ended December 31, 2021, prepared in accordance with IFRS as issued by the IASB.

(b) Basis of measurement:

The financial statements have been prepared on the historical cost basis, other than the 2018 Convertible Debentures, which are measured at fair value (note 4).

(c) Functional and presentation currency:

The financial statements are presented in Canadian dollars, which is the Corporation's functional currency. All financial information presented in dollars has been rounded to the nearest thousand except for share and per share amounts.

(d) Going concern:

These financial statements have been prepared on the basis that the Corporation will continue as a going concern, which assumes that the Corporation will be able to raise the necessary capital on terms acceptable to the Corporation and be able to realize its assets and satisfy its liabilities in the normal course of business for the foreseeable future.

Although the Corporation had a positive net working capital position of \$1,417 as at March 31, 2022 (December 31, 2021: \$1,796), the Corporation had a net loss for the period ended March 31, 2022 of \$710 (2021: \$838), used cash in operating activities of \$352 for the period ended March 31, 2022 (2021: \$188), and had a deficit of \$8,030 as at December 31, 2021 (December 31, 2021: \$7,320).

The Corporation carries debt in the form of convertible debentures that will mature in 2023 and 2026 which may be required to be settled in cash (see note 4).

The Corporation has not yet been able to generate the sales volumes required to create positive cash flows from operating activities. The continuation of the Corporation as a going concern is dependent upon the ability of the Corporation to continue to obtain external financing in order to fund operations. While the Corporation has previously been successful in raising external capital to fund its operations, there is no assurance that it will continue to do so in the future. These circumstances indicate the existence of a material uncertainty that may cast significant doubt on the Corporation's ability to meet its obligations as they come due and, accordingly, 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.

NOTES TO THE FINANCIAL STATEMENTS

(\$ Cdn thousands, except as noted) - unaudited

3. 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%.

On January 13, 2022, the Canadian federal government announced the repayment deadline has been extended from December 31, 2022 to December 31, 2023 for all eligible borrowers in good standing.

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 to extend the loans by two 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. Commencing January 1, 2024, interest accrues 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 are repaid in full on or before December 31, 2023, \$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 has been recorded as deferred revenue and is recognized as other income (government grants) over the two-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 has been recorded as deferred revenue and is recognized as other income (government grants) over the two-year term of the loan.

4. CONVERTIBLE DEBENTURES

(a) 2018 Convertible debentures

During the year ended December 31, 2018, the Corporation issued convertible debentures (“2018 Debentures”) with a principal balance of \$3,050 maturing on May 30, 2023. The debentures may be extended beyond the maturity date by the holder, in which case the debentures will become due 12 months after receiving notice from the holder. During the year ended December 31, 2018, a convertible debenture holder elected to convert their \$50 of convertible debentures plus accrued interest payable into 100,293 common shares.

NOTES TO THE FINANCIAL STATEMENTS

 (\$ Cdn thousands, except as noted) - unaudited

As at	March 31,	December 31,
(\$ Cdn thousands)	2022	2021
Balance at the beginning of year	3,030	2,662
Interest accrued during the year	90	347
Unrealized loss on convertible debentures	149	21
Balance at the end of the year	3,269	3,030
Face value of the convertible debentures at end of the period	3,000	3,000

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 as at March 31, 2022 and December 31, 2021 as follows:

As at	March 31,	December 31,
(\$ Cdn thousands)	2022	2021
Face value	3,000	3,000
Interest accrued	1,187	1,097
Face value plus accrued interest	4,187	4,097
Fair value adjustment	(918)	(1,067)
Balance at the end of the period	3,269	3,030

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 three-month period ended March 31, 2022, the Corporation's monthly cash burn rate was such that the accrued annual rate of interest payable was between 8.50% and 9.69% (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 March 31, 2022, the unpaid accrued interest payable was \$1,187 (December 31, 2021: \$1,097). 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.

NOTES TO THE FINANCIAL STATEMENTS

(\$ Cdn thousands, except as noted) - unaudited

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 as at March 31, 2022 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% (2020: 39.4%), interest payments of 8.5% to 12.0%, and a remaining expected term of 1.2 years (December 31, 2021: 1.4 years). The fair value of the conversion feature is determined using a Black-Scholes model with a volatility of 90% (2021: 90%), a risk-free rate of interest of 2.27% (December 31, 2021: 0.95%), a stock price of \$0.13 (2021: \$0.13) per share, and a remaining expected life of 1.2 years (2021: 1.4 years), as at March 31, 2022.

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 \$11. A 1% increase in the discount rate would result in a decrease in the fair value of the outstanding principal 2018 Debentures of \$27. 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	March 31,	December 31,
(\$ Cdn thousands)	2022	2021
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	229	168
Debenture liability balance at the end of the period	687	626

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

NOTES TO THE FINANCIAL STATEMENTS

(\$ Cdn thousands, except as noted) - unaudited

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.

5. SHARE CAPITAL

Common shares

At March 31, 2022, 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.

(\$ Cdn thousands)	Number	\$
Balance, December 31, 2020	69,279,316	2,186
Shares issued on exercise of stock options	1,750,000	228
Shares issued on conversion of restricted share units	493,750	118
Balance, December 31, 2021 and March 31, 2022	72,016,816	2,532

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).

NOTES TO THE FINANCIAL STATEMENTS

 (\$ Cdn thousands, except as noted) - unaudited

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.

The following summarizes the changes in outstanding options:

	2022		2021	
	Number	Weighted average exercise price (CND\$)	Number	Weighted average exercise price (CND\$)
Outstanding - beginning of period	3,531,250	0.21	4,875,000	0.17
Granted	-	-	1,325,000	0.25
Forfeited	(766,250)	0.23	(918,750)	0.24
Exercised	-	-	(1,750,000)	0.10
Outstanding - end of the period	2,765,000	0.20	3,531,250	0.21
Exercisable - end of the period	1,060,000	0.14	1,256,250	0.15

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 and are therefore considered equity-settled instruments.

The following summarizes the changes in outstanding RSUs:

As at	March 31,	December 31,
(Number of restricted share units)	2022	2021
Balance at the beginning of period	370,000	493,750
Granted	-	370,000
Vested and converted into shares	-	(493,750)
Balance at the end of period	370,000	370,000

On December 6, 2021, the Corporation granted RSUs to each of its two independent directors (the "2021 RSU Recipients"). In aggregate, 370,000 RSUs were granted with a vesting date of December 6, 2022. These grants represented compensation to the 2021 RSU Recipients for their respective service to the Corporation as Directors.

NOTES TO THE FINANCIAL STATEMENTS

(\$ Cdn thousands, except as noted) - unaudited

6. EARNINGS PER SHARE

Basic earnings per share and diluted earnings per share for the periods ended March 31, 2022 and 2021 are based on the net earnings attributable to shareholders as reported in the statements of operations and basic and diluted weighted average number of common shares outstanding in the relevant year:

For the three months ended March 31, (\$ Cdn thousands, except per share amounts)	2022	2021
Weighted average number of common shares		
Basic	70,985,195	69,919,316
Diluted	70,985,195	69,919,316

Potential common shares arising from the securities listed below were excluded from the weighted average number of diluted common shares outstanding for 2022 because they were anti-dilutive:

- 2,765,000 stock options;
- 2018 Convertible debentures with a principal amount of \$3,000 which can be converted into common shares at \$0.51 at the election of the debenture holders for a total of 5,882,353 shares and as at March 31, 2022, the unpaid accrued interest payable of \$1,187 which can be converted to shares at the election of the debenture holders at any time at the volume-weighted average trading price per shares for common shares over the ten consecutive trading days ending on the trading day before the conversion date;
- 2021 Convertible debentures with a principal amount of \$3,000 which can be converted into common shares at \$0.23 at the election of the debenture holders for a total of 13,043,479 shares;
- 12,000,000 warrants exercisable at \$0.25; and
- 370,000 restricted share units.

7. REVENUE

The Corporation presents revenue in three major categories:

- (a) Subscription revenue consists of monthly recurring Software as a Service (SaaS) fees charged to clients for access to operate the Platform, software updates, new features and technical support.
- (b) Investment services revenue consists of fees charged to clients on qualifying services and/or transactions processed through Katapult'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.
- (c) Integration revenue consists of charges to clients for services that are viewed by the Corporation to be one-time in nature and to new clients for the provision of regulatory consulting services, and marketing and customization services. The charges vary depending on the amount and complexity of the work involved and the nature of the client's needs.

NOTES TO THE FINANCIAL STATEMENTS

 (\$ Cdn thousands, except as noted) - unaudited

For the three months ended March 31,

(\$ Cdn thousands)	2022	2021
Subscription revenue	436	378
Investment services revenue	-	5
Integration revenue	19	-
Total revenue	455	383

8. EXPENSES BY NATURE

The Corporation presents certain expenses in the statements of operations and comprehensive loss by function. The following table presents those expenses by nature:

For the three months ended March 31,

(\$ Cdn thousands)	2022	2021
Expenses		
Salaries, subcontractors, and benefits	707	540
Marketing and sales costs	21	16
External services and facilities	201	163
Bad debt expense (recovery)	(3)	(7)
Share-based payments	20	(44)
	946	668
Allocated to:		
Cost of revenue	101	78
Selling, general, and administrative	510	400
Research and development	335	190
	946	668
Finance costs		
Bank related charges	4	5
Interest on convertible debentures	90	96
Accretion on convertible debenture	61	12
Interest on lease obligation	1	3
Other interest and charges	3	2
Total finance costs	159	118

NOTES TO THE FINANCIAL STATEMENTS(\$ Cdn thousands, except as noted) - unaudited

9. OTHER INCOME

For the three months ended March 31,

(\$ Cdn thousands)

	2022	2021
Other and interest income	(4)	(1)
Government grants	(100)	(22)
Total other income	(104)	(23)
